

**VILLAGE OF SOUTH SOLON  
MADISON COUNTY, OHIO**

*FINANCIAL STATEMENTS*  
DECEMBER 31, 2011 AND 2010

**WOLF, ROGERS, DICKEY & CO.**  
*Certified Public Accountants*





# Dave Yost • Auditor of State

Village Council  
Village of South Solon  
7120 North Street, P.O. Box 360  
South Solon, Ohio 43153

We have reviewed the *Independent Auditors' Report* of the Village of South Solon, Madison County, prepared by Wolf, Rogers, Dickey & Co., for the audit period January 1, 2010 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of South Solon is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

February 7, 2013

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**Village of South Solon  
Madison County, Ohio**

**For the Years Ended December 31, 2011 and 2010**

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# Wolf, Rogers, Dickey & Co.

Certified Public Accountants

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## Independent Auditors' Report

Village of South Solon  
Madison County, Ohio

To the Village Council:

We have audited the accompanying financial statements described in the table of contents of the Village of South Solon, Madison County, Ohio (the Village) as of and for the years ended December 31, 2011 and 2010. 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 require 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, 2011 and 2010, 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 and 2010, or its changes in financial position or cash flows 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 South Solon, Madison County, Ohio, as of December 31, 2011 and 2010, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1, during 2011 the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 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* and should be read in conjunction with this report in assessing the results of our audit.

Wolf, Rogers, Dickey & Co.  
Certified Public Accountants

July 2, 2012

**Village of South Solon  
Madison County, Ohio  
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances  
All Governmental Fund Types  
For the Year Ended December 31, 2011**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash receipts:			
Property and local taxes	\$ 5,524	4,157	9,681
Municipal income tax	3,491	-	3,491
Intergovernmental	31,205	22,528	53,733
Charges for services	55	-	55
Earnings on investments	81	27	108
Other	<u>2,137</u>	<u>47</u>	<u>2,184</u>
Total cash receipts	<u>42,493</u>	<u>26,759</u>	<u>69,252</u>
Cash disbursements:			
Current:			
Security of persons and property	2,890	4,400	7,290
Leisure time activities	500	-	500
Transportation	-	15,336	15,336
General government	34,555	-	34,555
Capital outlay	<u>-</u>	<u>1,311</u>	<u>1,311</u>
Total cash disbursements	<u>37,945</u>	<u>21,047</u>	<u>58,992</u>
Excess of cash receipts over cash disbursements	4,548	5,712	10,260
Fund cash balances, beginning of year	<u>35,780</u>	<u>16,558</u>	<u>52,338</u>
Fund cash balances:			
Restricted	-	22,270	22,270
Unassigned	<u>40,328</u>	<u>-</u>	<u>40,328</u>
Fund cash balances, end of year	\$ <u>40,328</u>	<u>22,270</u>	<u>62,598</u>

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

**Village of South Solon  
Madison County, Ohio  
Combined Statement of Cash Receipts, Cash Disbursements, and  
Changes in Fund Cash Balances – Proprietary Fund Type  
For the Year Ended December 31, 2011**

	<u>Proprietary Fund Type Enterprise</u>
Operating cash receipts:	
Charges for services	\$ 166,847
Other	<u>87</u>
Total operating cash receipts	166,934
Operating cash disbursements:	
Personal services	34,231
Contractual services	15,908
Supplies and materials	<u>27,914</u>
Total operating cash disbursements	<u>78,053</u>
Operating income	88,881
Non-operating cash receipts (disbursements):	
Intergovernmental	304,936
Other debt proceeds	30,765
Capital outlay	(328,800)
Principal retirement	(28,411)
Interest and other fiscal charges	<u>(35,766)</u>
Total non-operating cash receipts (disbursements)	<u>(57,276)</u>
Net receipts over disbursements	31,605
Fund cash balances, beginning of year	<u>197,318</u>
Fund cash balances, end of year	\$ <u>228,923</u>

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

**Village of South Solon  
Madison County, Ohio  
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances  
All Governmental Fund Types  
For the Year Ended December 31, 2010**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash receipts:			
Property and local taxes	\$ 4,815	4,166	8,981
Municipal income tax	15,055	-	15,055
Intergovernmental	30,971	20,473	51,444
Charges for services	110	-	110
Earnings on investments	<u>74</u>	<u>28</u>	<u>102</u>
Total cash receipts	<u>51,025</u>	<u>24,667</u>	<u>75,692</u>
Cash disbursements:			
Current:			
Security of persons and property	3,700	2,363	6,063
Leisure time activities	471	-	471
Transportation	-	15,917	15,917
General government	<u>38,686</u>	<u>-</u>	<u>38,686</u>
Total cash disbursements	<u>42,857</u>	<u>18,280</u>	<u>61,137</u>
Excess of cash receipts over cash disbursements	<u>8,168</u>	<u>6,387</u>	<u>14,555</u>
Fund cash balances, beginning of year	<u>27,612</u>	<u>10,171</u>	<u>37,783</u>
Fund cash balances, end of year	\$ <u>35,780</u>	<u>16,558</u>	<u>52,338</u>
Reserves for encumbrances	\$ <u>-</u>	<u>678</u>	<u>678</u>

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

**Village of South Solon  
Madison County, Ohio  
Combined Statement of Cash Receipts, Cash Disbursements, and  
Changes in Fund Cash Balances – Proprietary Fund Type  
For the Year Ended December 31, 2010**

	<u>Proprietary Fund Type Enterprise</u>
Operating cash receipts - Charges for services	\$ 169,651
Operating cash disbursements:	
Personal services	34,142
Contractual services	21,414
Supplies and materials	<u>26,975</u>
Total operating cash disbursements	<u>82,531</u>
Operating income	87,120
Non-operating cash receipts (disbursements):	
Intergovernmental	292,288
Other debt proceeds	1,764,836
Capital outlay	(479,993)
Principal retirement	(1,489,752)
Interest and other fiscal charges	<u>(75,771)</u>
Total non-operating cash receipts (disbursements)	<u>11,608</u>
Net receipts over disbursements	98,728
Fund cash balances, beginning of year	<u>98,590</u>
Fund cash balances, end of year	\$ <u>197,318</u>
Reserve for encumbrances	\$ <u>9,350</u>

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

**Village of South Solon  
Madison County, Ohio  
Notes to the Financial Statements  
December 31, 2011 and 2010**

(1) Summary of Significant Accounting Policies

Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of South Solon, Madison County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities and park operations. Stokes Township Volunteer Fire Department provides fire protection services. Sterling Joint Ambulance District provides emergency medical services. Madison County Sheriff's Department provides security of persons and property to the Village.

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

Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. The 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.

Deposits and Investments

The Village's accounting basis includes investments as assets. This 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.

Fund Accounting

The Village uses fund accounting to segregate cash that is restricted as to use. The Village classifies its funds into the following types:

Governmental Fund Types:

General Fund

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

**Village of South Solon  
Madison County, Ohio  
Notes to the Financial Statements, continued  
December 31, 2011 and 2010**

(1) Summary of Significant Accounting Policies, continued

Special Revenue Funds

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

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

Police Levy Fund – This fund receives property taxes to maintain security of persons and property in the Village.

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:

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

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

Budgetary Process

The Ohio Revised Code (ORC) requires that each fund be budgeted annually.

Appropriations

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

Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

Encumbrances

The ORC requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated.

**Village of South Solon  
Madison County, Ohio  
Notes to the Financial Statements, continued  
December 31, 2011 and 2010**

(1) Summary of Significant Accounting Policies, continued

Budgetary Process, continued

A summary of 2011 and 2010 budgetary activity appears in Note 3.

Fund Balance

For 2011, the Village implemented Governmental Accounting Standards Board (GASB) No. 54 "Fund Balance Reporting and Governmental Fund Definitions" which had no effect on fund balances. GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement 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. The classifications are as follows:

Nonspendable

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

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.

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 requirement.

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.

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.

**Village of South Solon  
Madison County, Ohio  
Notes to the Financial Statements, continued  
December 31, 2011 and 2010**

(1) Summary of Significant Accounting Policies, continued

Fund Balance, continued

Unassigned, continued

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.

Property, Plant and Equipment

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

(2) Equity in Pooled Cash

The Village maintains a deposit pool used by all funds. The ORC prescribes allowable deposits and investments. The carrying amounts of cash at December 31 were as follows:

	<u>2011</u>	<u>2010</u>
Demand deposits	\$ <u>291,521</u>	<u>249,656</u>

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

(3) Budgetary Activity

Budgetary activity for the years ended December 31, 2011 and 2010 follows:

<u>Fund Type</u>	<u>2011 Budgeted vs. Actual Receipts</u>		
	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 51,000	42,493	(8,507)
Special Revenue	25,000	26,759	1,759
Enterprise	<u>225,000</u>	<u>502,636</u>	<u>277,636</u>
Total	\$ <u>301,000</u>	<u>571,888</u>	<u>270,888</u>

**Village of South Solon  
Madison County, Ohio  
Notes to the Financial Statements, continued  
December 31, 2011 and 2010**

(3) Budgetary Activity, continued

2011 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 49,660	37,945	11,715
Special Revenue	21,913	21,047	866
Capital Projects	138,269	-	138,269
Enterprise	<u>196,340</u>	<u>471,031</u>	<u>(274,691)</u>
Total	\$ <u>406,182</u>	<u>530,023</u>	<u>(123,841)</u>

2010 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 97,858	51,025	(46,833)
Special Revenue	28,300	24,667	(3,633)
Enterprise	<u>260,600</u>	<u>720,804</u>	<u>460,204</u>
Total	\$ <u>386,758</u>	<u>796,496</u>	<u>409,738</u>

2010 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 53,320	42,857	10,463
Special Revenue	22,358	18,958	3,400
Capital Projects	110,978	-	110,978
Enterprise	<u>184,346</u>	<u>622,076</u>	<u>(437,730)</u>
Total	\$ <u>371,002</u>	<u>683,891</u>	<u>(312,889)</u>

(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.

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

**Village of South Solon  
Madison County, Ohio  
Notes to the Financial Statements, continued  
December 31, 2011 and 2010**

(5) Local Income Tax

As of November 2008 general election the Village's income tax has been repealed. The voters chose to remove the income tax. However, the Village made the decision to still utilize the Regional Income Tax Agency to pursue delinquent taxes. All of the income taxes being reported on the 2010 and 2011 financial statements are due to the delinquent tax collections.

(6) Debt Obligations

At December 31, 2011 and 2010, debt obligations consisted of the following issuances:

<u>Description</u>	<u>2011</u>	<u>2010</u>
Series 2005 USDA Rural Development Authority (RDA) Sanitary Sewer System Mortgage Revenue Bond, due in annual installments of varying amounts through 2050 at a rate of 2.375%	\$ 1,483,000	1,505,971
2009 Ohio Water Development Authority (OWDA) for water system improvements, due in annual installments of \$10,034 through 2040 at a rate of 0%	261,583	253,425
2011 Ohio Water Development Authority (OWDA) for water storage tank replacement, due in annual installments of \$974 through 2041 at a rate of 1.5%	<u>17,167</u>	<u>-</u>
Total debt obligations	\$ <u>1,761,750</u>	<u>1,759,396</u>

The Village's long-term debt activity for the year ended December 31, 2011 was as follows:

	<u>Balance</u> <u>12/31/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2011</u>
USDA (RDA) Revenue Bonds – Sewer System	\$1,505,971	-	(22,971)	1,483,000
OWDA – water tank replacement	253,425	13,598	(5,440)	261,583
OWDA – water system improvements	<u>-</u>	<u>17,167</u>	<u>-</u>	<u>17,167</u>
	<u>\$1,759,396</u>	<u>30,765</u>	<u>(28,411)</u>	<u>1,761,750</u>

**Village of South Solon  
Madison County, Ohio  
Notes to the Financial Statements, continued  
December 31, 2011 and 2010**

(6) Debt Obligations, continued

The Village's long-term debt activity for the year ended December 31, 2010 was as follows:

	<u>Balance</u> <u>12/31/2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2010</u>
Mortgage Revenue Bonds – Sewer System	1,430,200	-	(1,430,200)	-
OWDA – water system improvements	54,112	-	(54,112)	-
USDA (RDA) Revenue Bonds – Sewer System	-	1,505,971	-	1,505,971
OWDA – water tank replacement	-	<u>258,865</u>	<u>(5,440)</u>	<u>253,425</u>
	<u>1,484,312</u>	<u>1,764,836</u>	<u>(1,489,752)</u>	<u>1,759,396</u>

The Ohio Environmental Protection Agency (EPA) mandated a water and sewer system installation in the Village as well as construction of a new water tower. The Ohio Water Development Authority (OWDA) and the U.S. Department of Agriculture's Rural Development Authority (RDA) were the loan sources for these projects.

The water and sewer receipts collateralize the bonds. The bonds will be repaid over forty years with revenue derived from water and sewer fees. The RDA set utility rates, approved by Village Council, sufficient to cover these debt service requirements.

Amortization of the above debt, including interest, is scheduled as follows:

Year Ending December 31:	<u>Mortgage Revenue Bonds</u>	<u>OWDA Loan</u>	<u>OWDA Loan</u>
2012	\$ 58,821	10,034	974
2013	58,761	10,034	974
2014	58,688	10,034	974
2015	58,804	10,034	974
2016	58,703	10,034	974
2017-2021	293,625	50,170	4,870
2022-2026	293,662	50,170	4,870
2027-2031	293,649	50,170	4,870
2032-2036	293,618	50,170	4,870
2037-2041	293,770	40,136	4,870
2042-2046	293,658	-	-
2047-2050	<u>234,912</u>	<u>-</u>	<u>-</u>
Total	\$ <u>2,290,671</u>	<u>290,986</u>	<u>29,220</u>

(7) Retirement System

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The ORC prescribes this plan's benefits, which

**Village of South Solon  
Madison County, Ohio  
Notes to the Financial Statements, continued  
December 31, 2011 and 2010**

(7) Retirement System, continued

include postretirement healthcare and survivor and disability benefits. The ORC also prescribes contribution rates. For 2011 and 2010, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

Effective July 1, 1991, all employees not otherwise covered by the OPERS have an option to choose Social Security. As of December 31, 2011, two employees of the Village have elected Social Security. The employees' liability is 4.2 and 6.2 percent of wages paid for 2011 and 2010, respectively. The Villages' liability is 6.2 percent of wages paid for both years.

(8) Risk Management

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

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

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2010 and 2009 (the latest information available):

**Village of South Solon  
Madison County, Ohio  
Notes to the Financial Statements, continued  
December 31, 2011 and 2010**

(8) Risk Management, continued

*Financial Position, continued*

	<u>2010</u>	<u>2009</u>
Assets	\$ 34,952,010	36,374,898
Liabilities	<u>(14,320,812)</u>	<u>(15,256,862)</u>
Net assets	\$ <u>20,631,198</u>	<u>21,118,036</u>

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$12.9 million and \$14.1 million of estimated incurred claims payable. The assets above also include approximately \$12.4 million and \$13.7 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Village's share of these unpaid claims collectible in future years is approximately \$25,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Contributions to PEP

<u>2011</u>	<u>2010</u>
\$ 6,241	5,446

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

(9) Subsequent Events

Subsequent events have been evaluated through July 2, 2012, which is the date the financial statements were available to be issued.

**Village of South Solon  
Madison County, Ohio  
Notes to the Financial Statements, continued  
December 31, 2011 and 2010**

(10) Compliance and Contingencies

Contrary to Ohio law:

- Actual receipts fell below budgeted receipts for the General Fund in 2011 and in the General Fund and Special Revenue Fund in 2010. No amended Certificate of Estimated Resources was filed.
- Material reclassification to the financial statements was necessary in order for them to be fairly stated.
- The Village did not record all of the activity for the construction of a new water tower and upgrade of the water treatment plant.
- The Village did not encumber all funds prior to expenditures.
- The Village did not encumber for contracts that extended beyond the end of 2010.
- Appropriations exceeded available estimated resources in the Capital Projects Fund in 2011 and in the State Highway Fund and Capital Projects Fund in 2010.
- Expenditures exceeded appropriations in the Enterprise Fund in 2011 and 2010.

Contrary to Federal law:

- The Village did not issue Internal Revenue Service Form 1099-MISC for 2011 or 2010. Lack of such required forms could result in federal penalties.

# Wolf, Rogers, Dickey & Co.

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**Independent Auditors' Report On Internal Control Over  
Financial Reporting And On Compliance And Other Matters,  
Based On An Audit Of Financial Statements Performed  
In Accordance With Government Auditing Standards**

Village of South Solon  
Madison County, Ohio

To the Village Council:

We have audited the financial statements of the Village of South Solon, Madison County, Ohio (the Village) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated July 2, 2012 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, and wherein we noted the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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 to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected on a timely basis. We consider Findings 2011-01, 2011-02, 2011-06 and 2011-07 described in the accompanying Schedule of Findings to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Findings 2011-03, 2011-04, 2011-08 and 2011-09 described in the accompanying Schedule of Findings to be significant deficiencies.

### 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 that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as Findings 2011-01, 2011-03 through 2011-05 and 2011-07 through 2011-09.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated July 2, 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 and the Village Council. We intend it for no one other than these specified parties.

*Wolf, Rogers, Dickey & Co.*  
Certified Public Accountants

July 2, 2012

**Village of South Solon  
Madison County, Ohio  
Schedule of Findings  
December 31, 2011 and 2010**

**Findings Related to the Financial Statements  
Required to be Reported in Accordance with GAGAS**

Finding Number 2011-01  
Material weakness/noncompliance

Ohio Revised Code (ORC) Section 5705.39 states that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure. Appropriations in this sense are approved appropriations by the government and the estimated revenue needs to be certified by the Budget Commission.

The Village had appropriations exceeding estimated resources in the following funds at December 31, 2011.

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations Authority</u>	<u>Variance</u>
Capital Projects	\$ -	138,269	(138,269)

The Village had appropriations exceeding estimated resources in the following funds at December 31, 2010.

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations Authority</u>	<u>Variance</u>
State Highway	\$ 2,178	3,500	(1,322)
Capital Projects	-	110,978	(110,978)

We recommend the Village monitor closely its appropriation and estimated resources and ensure that all required budgetary documents, including amended appropriations and estimated resources are filed with the Budget Commission.

Village Response:

No Village response received.

**Village of South Solon  
Madison County, Ohio  
Schedule of Findings, continued  
December 31, 2011 and 2010**

**Findings Related to the Financial Statements  
Required to be Reported in Accordance with GAGAS (continued)**

Finding Number 2011-02  
Material weakness

ORC Section 5705.36 provides that on or about the first day of each fiscal year, the fiscal officer shall certify to the County Auditor the total amount from all sources available for expenditures from each fund set up in the tax budget, with any balances that may exist at the end of preceding year. It further provides that encumbered but unexpended funds from the previous year shall not be included as available. This is generally referred to as the "first amended" certificate of estimated resources and shall serve as the basis of the annual appropriation resolution. Additionally, ORC Section 5705.36 provides that total appropriations made during the fiscal year from any fund shall not exceed the amount set forth as available for expenditure from such fund.

For 2011 and 2010, the estimated resources did not agree to amounts entered into the Uniform Accounting Network (UAN) as follows:

<u>2010</u>	<u>Per Amended Certificate of Estimated Resources</u>	<u>Per UAN</u>	<u>Difference</u>
Street Construction	\$ 19,800	15,330	(4,470)
Sewer Mortgage Account	91,000	-	(91,000)
Water Debt Account	16,200	-	(16,200)
Capital Projects	-	100,000	100,000
Sewer	<u>111,000</u>	<u>110,899</u>	<u>(101)</u>
	<u>\$ 238,000</u>	<u>226,229</u>	<u>(11,771)</u>

<u>2011</u>	<u>Per Amended Certificate of Estimated Resources</u>	<u>Per UAN</u>	<u>Difference</u>
Capital Projects	\$ -	141,469	141,469
Sewer Mortgage Account	60,000	-	(60,000)
Sewer	<u>115,000</u>	<u>175,000</u>	<u>60,000</u>
	<u>\$ 175,000</u>	<u>316,469</u>	<u>141,469</u>

Village Response:

No Village response received.

**Village of South Solon  
Madison County, Ohio  
Schedule of Findings, continued  
December 31, 2011 and 2010**

**Findings Related to the Financial Statements  
Required to be Reported in Accordance with GAGAS (continued)**

Finding Number 2011-03  
Significant deficiency/noncompliance

ORC Section 5705.42 indicates when the United States government or the state or any department, division, agency, authority, or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity, or function of such subdivision, or enters into an agreement with the subdivision for the making of any such grant or loan of money, the amount thereof is deemed appropriated for such purpose by the taxing authority of the subdivision as provided by law and shall be recorded as such by the fiscal officer of the subdivision, and is deemed in process of collection within the meaning of ORC section 5705.41.

The Village constructed a new water tower and upgraded the water treatment system from funding provided by the Ohio Water Development Authority (OWDA). As part of this project, OWDA made some of the payments directly to the contractors for the project costs. The Village is to record memorandum receipts and disbursements on its books for expenditures made on behalf of the Village. The Village did not record all of the activity in the financial statements.

Although there is no effect on the cash balance of the Village, not recording all of this activity causes revenues and expenses to be understated. Adjustments of \$189,220 and \$423,309 for 2011 and 2010, respectively, have been made to the financial statements to reflect the full cost of the project.

In addition, appropriations in the Enterprise Fund were not approved to cover the expenditures made by OWDA on behalf of the Village for the project. In violation of ORC Section 5705.41(B), expenditures exceeded appropriations by \$274,691 and \$437,730 in the Enterprise Fund for 2011 and 2010, respectively.

Village Response:

No Village response received.

**Village of South Solon  
Madison County, Ohio  
Schedule of Findings, continued  
December 31, 2011 and 2010**

**Findings Related to the Financial Statements  
Required to be Reported in Accordance with GAGAS (continued)**

Finding Number 2011-04  
Significant deficiency/noncompliance

The Village Officer's Handbook Chart of Accounts appendix details the revenue and expenditure codes, name of source information, and a brief description of the type of revenue or expenditure that relates to the code. We noted the following errors in the Village prepared financial statements that required reclassification between line items:

- In the 2010 General Fund \$2,014 of local government receipts were recorded as real estate tax revenue and \$3,120 of municipal income tax receipts were recorded as other local taxes.
- In 2010 expenditures for capital outlays were recorded as basic utility services instead of capital outlays in the Enterprise Funds. In 2011 capital outlays were recorded in basic utility services instead of capital outlays in the Enterprise Funds and in the Special Revenue Fund capital outlays were recorded as transportation.
- Transfers of cash from the general checking account to the Enterprise Fund's savings account were recorded as Capital Outlay of \$95,000 in 2011 and as Redemption of Principal of \$39,150 in 2010.

Reclassification adjustments were made in order for the audited financial statements to properly reflect these receipts and disbursements.

Village Response:

No Village response received.

Finding Number 2011-05  
Noncompliance

ORC Section 121.22 (C) states that the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection. The Village was unable to provide approved minutes for all of the Council meetings. Minutes must be "full and accurate" and state sufficient facts and information to permit the public to understand and appreciate the rationale behind the public body's decision. The public not only has a right to know a government body's final decision on a matter, but also the means by which those decisions were reached.

Village Response:

No Village response received.

**Village of South Solon  
Madison County, Ohio  
Schedule of Findings, continued  
December 31, 2011 and 2010**

**Findings Related to the Financial Statements  
Required to be Reported in Accordance with GAGAS (continued)**

Finding Number 2011-06  
Material weakness

Ohio Administrative Code (OAC) Section 117-2-02 states that all public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the OAC. The OAC asserts that management is responsible for completeness of the financial records, including that all account balances and transactions that should be included in the financial records are included. The Village opened a savings account to set aside sewer revenues to cover electronic disbursements of loan repayments. This savings account is not recorded in UAN. As a result loan payments were not recorded in UAN and in the financial statements. A reclassification adjustment of \$22,971 to principal retirement and \$35,767 to interest charges were made in order for the audited financial statements to be fairly stated.

Village Response:

No Village response received.

Finding Number 2011-07  
Material weakness/noncompliance

ORC Section 5705.44 states that for contracts extending beyond the fiscal year end, the fiscal officer of the taxing authority shall make a certification for the amount required to meet the obligation of such contract maturing in a subsequent fiscal year. The amount of the unfilled obligation under such contract shall be included in the annual appropriation measure for the next year as a fixed charge. We identified three contract payments totaling \$10,027 extending beyond the 2010 year end that were not encumbered. These encumbrances are reflected in the audited financial statements.

Village Response:

No Village response received.

**Village of South Solon  
Madison County, Ohio  
Schedule of Findings, continued  
December 31, 2011 and 2010**

**Findings Related to the Financial Statements  
Required to be Reported in Accordance with GAGAS (continued)**

Finding Number 2011-08  
Significant deficiency/noncompliance

ORC Section 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury when such contract or order is made.

ORC Section 5705.41 also provides that if no certificate was furnished at the time that the contract was entered into, the fiscal officer may prepare a Then and Now Certificate stating (1) that there was at the time of the making of the contract and (2) at the time of the execution of this certificate a sufficient sum appropriated for the purpose of the contract in question in the treasury or in process of collection to the credit of the appropriate fund, free from previous encumbrances. During our testing of disbursements, we noted that funds were not encumbered prior to expenditure for eight of the twenty-four disbursements tested and Then and Now Certificates were not prepared.

Village Response:

No Village response received.

Finding Number 2011-09  
Significant deficiency/noncompliance

The Internal Revenue Code requires an entity to issue Internal Revenue Service Form 1099-MISC when payments for services performed for the entity by individuals not treated as employees total \$600 or more. The Village wrote checks payable to one unincorporated business in 2011 totaling \$1,095 and to two unincorporated businesses in 2010 totaling \$3,395, and did not issue Form 1099-MISCs.

Village Response:

No Village response received.

**Village of South Solon  
Madison County, Ohio  
Schedule of Prior Audit Findings  
December 31, 2011 and 2010**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u>
2009-001	Appropriations exceeding actual resources	Yes	Finding no longer valid.
2009-002	Appropriations exceeding estimated revenue.	No	Repeated as Finding Number 2011-01
2009-003	Expenditures exceeding appropriations.	No	Repeated as Finding Number 2011-03.
2009-004	Negative Fund Balance	Yes	Finding no longer valid.
2009-005	Financial reporting	No	Repeated as Finding Number 2011-03



# Dave Yost • Auditor of State

VILLAGE OF SOUTH SOLON

MADISON 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 19, 2013