



Dave Yost • Auditor of State

VILLAGE OF CLARINGTON
MONROE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Clarington
Monroe County
P.O. Box 215
Clarington, Ohio 43915-0215

To the Village Council:

Report on Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Clarington, Monroe County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance 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 thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Clarington, Monroe County as of December 31, 2011 and 2010, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during 2011 the Village adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

May 8, 2013

**VILLAGE OF CLARINGTON
MONROE COUNTY**

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

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Permanent	
Cash Receipts				
Property and Other Local Taxes	\$11,227		\$0	\$11,227
Intergovernmental	105,269	\$20,020		125,289
Charges for Services	75	7,850		7,925
Fines, Licenses and Permits	3,206			3,206
Donations	3,000			3,000
Earnings on Investments	154	695		849
Miscellaneous	21,827	50		21,877
<i>Total Cash Receipts</i>	<u>144,758</u>	<u>28,615</u>	<u>0</u>	<u>173,373</u>
Cash Disbursements				
Current:				
Public Health Services	1,624	6,310		7,934
Basic Utility Services	1,646	5,305		6,951
Miscellaneous		2,010		2,010
General Government	41,103	12,665		53,768
Debt Service:				
Principal Retirement		2,393		2,393
<i>Total Cash Disbursements</i>	<u>44,373</u>	<u>28,683</u>	<u>0</u>	<u>73,056</u>
<i>Net Change in Fund Cash Balances</i>	<u>100,385</u>	<u>(68)</u>	<u>0</u>	<u>100,317</u>
<i>Fund Cash Balances, January 1</i>	<u>185</u>	<u>16,106</u>	<u>90,059</u>	<u>106,350</u>
Fund Cash Balances, December 31				
Nonspendable			90,059	90,059
Restricted		9,490		9,490
Committed		6,548		6,548
Unassigned (Deficit)	100,570			100,570
<i>Fund Cash Balances, December 31</i>	<u>\$100,570</u>	<u>\$16,038</u>	<u>\$90,059</u>	<u>\$206,667</u>

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

**VILLAGE OF CLARINGTON
MONROE COUNTY**

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

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
Operating Cash Receipts	
Intergovernmental	\$3,943
Charges for Services	251,020
Miscellaneous	129
	<u>255,092</u>
 Operating Cash Disbursements	
Personal Services	57,955
Employee Fringe Benefits	12,417
Contractual Services	7,894
Supplies and Materials	12,482
Basic Utility Services	20,852
Employee Reimbursement	2,727
Repairs and Maintenance	10,696
Communication, Printing, and Advertising	5,647
Other	1,253
	<u>131,923</u>
 <i>Total Operating Cash Disbursements</i>	<u>131,923</u>
 <i>Operating Income</i>	<u>123,169</u>
 Non-Operating Cash (Disbursements)	
Capital Outlay	(22,021)
Principal Retirement	(78,641)
Interest and Other Fiscal Charges	(3,883)
	<u>(104,545)</u>
 <i>Total Non-Operating Cash (Disbursements)</i>	<u>(104,545)</u>
 <i>Net Change in Fund Cash Balances</i>	18,624
 <i>Fund Cash Balances, January 1</i>	<u>229,511</u>
 <i>Fund Cash Balances, December 31</i>	<u>\$248,135</u>

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

**VILLAGE OF CLARINGTON
MONROE COUNTY**

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

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Permanent	
Cash Receipts:				
Property and Other Local Taxes	\$11,889		\$0	\$11,889
Intergovernmental	15,137	\$20,101		35,238
Charges for Services	75	12,600		12,675
Fines, Licenses and Permits	4,578			4,578
Earnings on Investments	69	1,233		1,302
Miscellaneous	24			24
<i>Total Cash Receipts</i>	<u>31,772</u>	<u>33,934</u>	<u>0</u>	<u>65,706</u>
Cash Disbursements:				
Current:				
Public Health Services	1,861	19,936		21,797
Basic Utility Services	1,226	4,914		6,140
Miscellaneous	93	247		340
General Government	27,828	11,701		39,529
Capital Outlay		500		500
Debt Service:				
Principal Retirement		2,393		2,393
<i>Total Cash Disbursements</i>	<u>31,008</u>	<u>39,691</u>	<u>0</u>	<u>70,699</u>
<i>Net Change in Fund Cash Balances</i>	<u>764</u>	<u>(5,757)</u>	<u>0</u>	<u>(4,993)</u>
<i>Fund Cash Balances, January 1</i>	<u>(579)</u>	<u>21,863</u>	<u>90,059</u>	<u>111,343</u>
<i>Fund Cash Balances, December 31</i>	<u>\$185</u>	<u>\$16,106</u>	<u>\$90,059</u>	<u>\$106,350</u>

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

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$248,103
<i>Total Operating Cash Receipts</i>	248,103
Operating Cash Disbursements:	
Personal Services	56,432
Employee Fringe Benefits	12,860
Contractual Services	6,107
Supplies and Materials	22,943
Basic Utility Services	19,631
Employee Reimbursement	2,453
Repairs and Maintenance	13,899
Communication, Printing, and Advertising	5,413
Other	1,478
<i>Total Operating Cash Disbursements</i>	141,216
<i>Operating Income</i>	106,887
Non-Operating Cash Receipts (Disbursements):	
Earnings on Investments	4
Miscellaneous Receipts	(750)
Principal Retirement	(42,647)
Interest and Other Fiscal Charges	(27,403)
<i>Total Non-Operating Cash Receipts (Disbursements)</i>	(70,796)
<i>Net Change in Fund Cash Balances</i>	36,091
<i>Fund Cash Balances, January 1</i>	193,420
<i>Fund Cash Balances, December 31</i>	\$229,511

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

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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 Clarington, Monroe County, Ohio (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 general government operations. The Village contracts with Clarington Volunteer Fire Department to provide fire protection services and the Monroe County Sheriff's department to provide security of persons and property.

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. 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.

The Village values U.S. Treasury Notes 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 accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than capital projects. 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.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Cemetery Operating – This fund receives fees for opening cemetery plots and maintaining the cemetery.

3. Permanent Funds

This fund accounts for and reports resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs (for the benefit of the government or its citizenry). The Village had the following significant Permanent Fund:

Cemetery Bequest 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.

4. 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 service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer 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. Appropriations lapse at year end.

2. Estimated Resources

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

VILLAGE OF CLARINGTON
MONROE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. The Village did not use the encumbrance method of accounting.

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

F. Fund Balance

For 2011, 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.

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.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (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.

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, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Equity in Pooled Deposits and Investments

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

	2011	2010
Demand deposits	\$338,516	\$219,672
Certificates of deposit	95,199	95,199
Other time deposits (savings and NOW accounts)	20,087	19,990
Total deposits	453,802	334,861
U.S. Treasury Notes	1,000	1,000
Total investments	1,000	1,000
Total deposits and investments	\$454,802	\$335,861

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

Investments: The Federal Reserve holds the Village's U.S. Treasury Notes in book-entry form, in the name of the Village's financial institution. The financial institution maintains records identifying the Village as owner of these securities.

3. Budgetary Activity

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

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

3. Budgetary Activity (Continued)

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$144,758	\$144,758
Special Revenue		28,615	28,615
Enterprise		255,092	255,092
Total	\$0	\$428,465	\$428,465

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$44,373	(\$44,373)
Special Revenue		28,683	(28,683)
Enterprise		236,468	(236,468)
Total	\$0	\$309,524	(\$309,524)

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$31,772	\$31,772
Special Revenue		33,934	33,934
Enterprise		247,357	247,357
Total	\$0	\$313,063	\$313,063

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$31,008	(\$31,008)
Special Revenue		39,691	(39,691)
Enterprise		211,266	(211,266)
Total	\$0	\$281,965	(\$281,965)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in all funds by a total of \$309,524 for the year ended December 31, 2011 and by \$281,965 for the year ended December 31, 2010. This is due to Village Council not passing a permanent appropriation measure for 2011 or 2010 contrary to Ohio Rev. Code Section 5705.38(A).

4. Property Tax

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

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

4. Property Tax (Continued)

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, 2011 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loans	\$305,024	6.16% to 7.45%
Ohio Public Works Commission Loans	312,094	0% to 2%
Total	\$617,118	

The Ohio Water Development Authority (OWDA) loans relate to sewer plant expansion projects the Ohio Environmental Protection Agency mandated. The loans will be repaid in semiannual installments over 25 years. Sewer receipts collateralize the loans. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission (OPWC) loans relate to street resurfacing, a waterline extension project for Sykes Ridge, and a water system replacement project. The loans will be repaid in semiannual installments over 20 years. The Village's taxing authority collateralized the loan relating to street resurfacing. Water receipts collateralize the loans relating to the waterline extension and water system replacement projects. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

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

Year ending December 31:	OWDA Loan	OPWC Loan
2012	\$32,378	\$10,793
2013	64,757	21,586
2014	64,756	20,389
2015	64,756	19,192
2016	64,756	19,193
2017-2021	97,134	95,965
2022-2026		78,826
2027-2031		55,520
Total	\$388,537	\$321,464

6. Retirement Systems

Most Village employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits. Those who do not belong to OPERS elected to enroll in Social Security.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

6. Retirement Systems (Continued)

The Ohio Revised Code 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 Ohio Public Employees Retirement System have an option to choose Social Security or the Ohio Public Employees Retirement System. The Village's liability is 6.2 percent of wages.

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

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. 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.

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Dave Yost • Auditor of State

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

Village of Clarington
Monroe County
P.O. Box 215
Clarington, Ohio 43915-0215

To the Village Council:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Clarington, Monroe County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010, and the related notes to the financial statements and have issued our report thereon dated May 8, 2013, wherein we noted the Village followed accounting financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1 and wherein we also noted the Village has adopted Governmental Accounting Standards Board Statement No. 54 during 2011.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying Schedule of Findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider findings 2011-05 and 2011-06 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, opining 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 we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2011-01 through 2011-04.

Entity's Response to Findings

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.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

May 8, 2013

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2011-01

Noncompliance Citation

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, shall be paid into a special fund for such purpose. All revenue derived from a source other than the general property tax, for which the law does not prescribe use for a particular purpose, including interest earned on the principal of any special fund, regardless of the source or purpose of the principal, shall be paid into the general fund.

During 2011 there were several receipts that were not posted to the proper fund based on the source of the receipt which included the following:

- The Village received approximately \$21,378 for compensation from various gas companies for granting them easements and right-aways. These monies were posted to the Water Fund and should have been posted to the General Fund.
- The Village received a \$3,000 donation for the Sunfish Creek Festival. This donation was posted to the Water Fund and should have been posted to the General Fund.
- The Village received \$4,450 from the Federal Emergency Management Agency (FEMA) and was posted to the General Fund. These monies should have been posted to the Water, Sewer, and Street Construction, Maintenance, and Repair Funds' in the amount of \$2,893, \$1,050, and \$507, respectively. These funds are where the expenditures were originally made from for the work reimbursed by FEMA.

The above adjustments, to which management agrees, were posted to the accounting records and are reflected in the accompanying financial statements.

We recommend the Village Clerk/Treasurer refer to the Village Officers' Handbook (Revised 3/2013) when a question arises as to what fund a specific receipt is to be posted based on its nature.

Officials' Response: We will post receipts to the proper fund based on its source and if a question arises we will refer to the Village Officers Handbook for assistance in the proper posting.

FINDING NUMBER 2011-02

Noncompliance Citation

Ohio Rev. Code Section 5705.38(A) states on or about the first day of each year, the taxing authority of each subdivision or other taxing unit shall pass an appropriation measure, and thereafter during the year it may pass any supplemental appropriation measures as it finds necessary, based on the revised tax budget or the official certificate of estimated resources or amendments of the certificate. If it desires to postpone the passage of the annual appropriation measure until an amended certificate is received based on the actual balances, it may pass a temporary appropriation measure for meeting the ordinary expenses of the taxing unit until no later than the first day of April of the current year, and the appropriations made in the temporary measure shall be chargeable to the appropriations in the annual appropriation measure for that fiscal year when passed.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2011-02 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.38(A) (Continued)

The Village Council passed temporary appropriations for 2011 and 2010 at the fund level but failed to pass permanent appropriations for both years. Therefore, no appropriation resolution was filed with the Monroe County Auditor's Office.

We recommend the Village Council pass the appropriation resolutions on or about the first day of each year and document such approval in the minute record. The Village Clerk/Treasurer should then file the approved appropriation resolutions with the Monroe County Auditor's Office. Otherwise, the Village should not expend any money until appropriations are passed. Alternately, the Village may pass a temporary appropriation measure to cover expenditures until the permanent appropriations are passed prior to April 1st of each year.

Officials' Response: We will document that the appropriations are permanent in the future.

FINDING NUMBER 2011-03

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making any expenditure of money unless it has been appropriated.

The Village did not pass permanent appropriations for 2011 and 2010. Therefore, total expenditures for all funds exceeded appropriations by \$309,524 at December 31, 2011 and \$281,965 at December 31, 2010.

We recommend the Village Council and Clerk/Treasurer not spend any money until appropriations are adopted. Once appropriations are adopted, the Village Council and Clerk/Treasurer should compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the Village Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The Village Clerk/Treasurer should deny requests for payment when appropriations are not available.

Officials' Response: We will document the permanent appropriations in the future.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2011-04

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority 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. Further contracts and orders for expenditures lacking prior certification shall be null and void. 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.

Then and Now Certificate - If the fiscal officer can certify that both at the time 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 taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority 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 of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of 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.

Super Blanket Certificate – The taxing authority 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 line-item appropriation.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2011-04 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

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 of the Village exceeding budgetary spending limitations, we recommend the Village Clerk/Treasurer certify that funds are or will be available prior to obligations being incurred by the Village. When prior certification is not possible, "then and now" certification should be used.

The Village did not utilize the encumbrance method of accounting; therefore, no expenditures were certified as to the availability of funds.

We recommend the Village Clerk/Treasurer certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Village Clerk/Treasurer should sign the certification prior to the Village incurring a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Village Clerk/Treasurer should post approved purchase commitments to the proper appropriation code to reduce the available appropriation.

Officials' Response: We are in the process of returning to the UAN system and will be able to properly document purchase orders, etc.

FINDING NUMBER 2011-05

Material Weakness

The Village should have internal controls in place to reasonably assure that budgetary accounts are integrated into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The Village Clerk/Treasurer did not maintain a receipts or appropriations ledger. Therefore, budgeted receipts, and any amendments made to them, were not posted to a receipt ledger. Also, the Village Clerk/Treasurer did not post appropriations to an appropriation ledger. By not maintaining a receipts and appropriation ledger, Village Council does not have an effective system to monitor budget versus actual receipts and disbursements.

We recommend the Village Clerk/Treasurer maintain a receipt and appropriation ledger and record all estimated receipts per the Official Certificate of Estimated Resources and appropriations approved by Village Council. The Village Clerk/Treasurer should periodically present budget versus actual information to the Village Council. These procedures will help ensure more useful comparisons of budget versus actual activity, as well as provide management with accurate monitoring tools throughout the year.

Officials' Response: We are in the process of returning to the UAN system and will be able to maintain proper ledgers. Currently using the quickbooks system which various reports required are not available.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2011-06

Material Weakness

All local public offices may 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.

All local public offices may 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 to 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, uncommitted balance of appropriations and any other information required may be entered in the appropriate columns.

The Village did not maintain a cash journal, receipt ledger, or appropriation ledger. Only a general ledger, deposit detail, and check detail report were maintained for both 2011 and 2010.

In addition, the Village Clerk/Treasurer did not use the proper receipt and expenditure classifications for the annual financial report. For example, estate tax receipts, local government monies, and auto registration fees should be classified as intergovernmental receipts. Expenditures for wages should be classified as personal services and trash and utility expenditures should be classified as basic utility service.

We recommend the Village Clerk/Treasurer maintain a cash journal, receipts ledger, and appropriation ledger in accordance with the available authoritative resources and maintain the ledgers at the fund, function, object level of reporting. The receipt ledger and the appropriation ledger should be balanced with the cash journal on a monthly basis and used to prepare the year-end annual financial reports. The annual financial report should be presented using the proper receipt and expenditure classifications according to the Village Officer's Handbook (March 2013).

Officials' Response: We are in the process of returning to the UAN system and will be able to maintain proper ledgers. Currently using the quickbooks system which various reports required are not available.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-VCMC-001	Ohio Rev. Code Section 5705.38 (A) – no temporary or permanent appropriation measure passed.	No	Not Corrected – Reissued as Finding Number 2011-02.
2009-VCMC-002	Ohio Rev. Code Section 5705.36 – not certifying available revenues other than property tax revenues.	No	Not Corrected – Reissued in the management letter.
2009-VCMC-003	Ohio Rev. Code Section 5705.10 - negative fund cash balances.	No	Partially Corrected as there were no negative fund cash balances; however, reissued as Finding Number 2011-01 due to receipts posted to incorrect funds.
2009-VCMC-004	Ohio Administrative Code Section 117-2-02 – no receipts or appropriation ledgers and no budgetary integration into the accounting system.	No	Not Corrected – Reissued as Finding Numbers 2011-05 and 2011-06.



Dave Yost • Auditor of State

VILLAGE OF CLARINGTON

MONROE 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
MAY 28, 2013