



Mary Taylor, CPA
Auditor of State

VILLAGE OF COALTON
JACKSON COUNTY

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Mary Taylor, CPA

Auditor of State

Village of Coalton
Jackson County
P.O. Box 98
Jackson, Ohio 45621

To the Village Council:

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

April 24, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Coalton
Jackson County
P.O. Box 98
Jackson, Ohio 45621

To the Village Council:

We have audited the accompanying financial statements of the Village of Coalton, Jackson County, Ohio (the Village), as of and for the year ended December 31, 2007. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code Section 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code Sections 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. The Auditor of State also served during the year ended December 31, 2007 as the Village's financial supervisor under Ohio Rev. Code Section 118.05(G). 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 to present its larger (i.e., major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require, villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2007 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2007, or its changes in financial position for the year then ended.

The accompanying financial statements have been prepared assuming the Village will continue as a going concern. As discussed in Note 1 to the financial statements, the State of Ohio Auditor's Office declared the Village to be in fiscal emergency on August 1, 1993, and has continued to be in fiscal emergency since that time, which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Auditor of State has billed the Village for audit services provided for prior years. As of the date of this report, the Village has total unpaid audit fees of \$33,661.

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 Coalton, Jackson County, Ohio, as of December 31, 2007, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

April 24, 2008

**VILLAGE OF COALTON
JACKSON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 40,037	\$	\$ 40,037
Intergovernmental	41,250	46,368	87,618
Charges for Services		11,885	11,885
Fines, Licenses and Permits	11,209		11,209
Earnings on Investments	33	300	333
Miscellaneous	6,211	3,228	9,439
	<u>98,740</u>	<u>61,781</u>	<u>160,521</u>
Total Cash Receipts			
	<u>98,740</u>	<u>61,781</u>	<u>160,521</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	37,694	21,046	58,740
Public Health Services		4,655	4,655
Leisure Time Activities	898		898
Community Environment		1,965	1,965
Transportation		16,221	16,221
General Government	57,866	39	57,905
Debt Service:			
Redemption of Principal		7,975	7,975
	<u>96,458</u>	<u>51,901</u>	<u>148,359</u>
Total Cash Disbursements			
	<u>96,458</u>	<u>51,901</u>	<u>148,359</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>2,282</u>	<u>9,880</u>	<u>12,162</u>
Other Financing Receipts / (Disbursements):			
Sale of Fixed Assets	1,081		1,081
Transfers-In		2,500	2,500
Transfers-Out	(5,000)		(5,000)
Advances-In		7,651	7,651
Advances-Out	(7,651)		(7,651)
	<u>(11,570)</u>	<u>10,151</u>	<u>(1,419)</u>
Total Other Financing Receipts / (Disbursements)			
	<u>(11,570)</u>	<u>10,151</u>	<u>(1,419)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(9,288)</u>	<u>20,031</u>	<u>10,743</u>
Fund Cash Balances, January 1	<u>41,392</u>	<u>89,397</u>	<u>130,789</u>
Fund Cash Balances, December 31	<u><u>\$ 32,104</u></u>	<u><u>\$ 109,428</u></u>	<u><u>\$ 141,532</u></u>
Reserve for Encumbrances, December 31	<u><u>\$ 1,198</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 1,198</u></u>

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

**VILLAGE OF COALTON
JACKSON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$ 220,261	\$	\$220,261
Total Operating Cash Receipts	<u>220,261</u>	<u>0</u>	<u>220,261</u>
Operating Cash Disbursements:			
Personal Services	19,251		19,251
Employee Fringe Benefits	10,646		10,646
Contractual Services	106,849		106,849
Supplies and Materials	16,149		16,149
Other	697		697
Total Operating Cash Disbursements	<u>153,592</u>	<u>0</u>	<u>153,592</u>
Operating Income/(Loss)	<u>66,669</u>	<u>0</u>	<u>66,669</u>
Non-Operating Cash Receipts/(Disbursements):			
Other Non-Operating Cash Receipts		14,886	14,886
Capital Outlay	(3,188)		(3,188)
Redemption of Principal	(7,788)		(7,788)
Interest and Other Fiscal Charges	(13,984)		(13,984)
Other Non-Operating Cash Disbursements		(12,466)	(12,466)
Total Non-Operating Cash Receipts/(Disbursements)	<u>(24,960)</u>	<u>2,420</u>	<u>(22,540)</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements Before Interfund Transfers	<u>41,709</u>	<u>2,420</u>	<u>44,129</u>
Transfers-In	<u>2,500</u>		<u>2,500</u>
Net Receipts Over/(Under) Disbursements	44,209	2,420	46,629
Fund Cash Balances, January 1	<u>92,642</u>	<u>286</u>	<u>92,928</u>
Fund Cash Balances, December 31	<u>\$ 136,851</u>	<u>\$ 2,706</u>	<u>\$139,557</u>
Reserve for Encumbrances, December 31	<u>\$ 665</u>	<u>\$ 0</u>	<u>\$665</u>

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

**VILLAGE OF COALTON
JACKSON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Coalton, Jackson County (the Village), as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general government services, police services and street construction, repair and maintenance, as well as water, sewer and trash utilities. The Village also appropriates funds to support a volunteer fire department.

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

The Auditor of State of Ohio declared the Village to be in fiscal emergency on August 1, 1993. A financial planning and supervision commission was established to develop and oversee a financial recovery plan. The Village Council was prohibited from taking any action which is contrary to or not authorized by the plan. The Commission's primary charge was to develop, adopt and implement a financial recovery plan. The original recovery plan was adopted on April 1, 1994. State law requires the plan to be updated annually. The last update was approved on June 29, 2006.

B. Basis of Accounting

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. Cash 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. The Village reports gains or losses at the time of sale as receipts or disbursements, respectively. The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

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

VILLAGE OF COALTON
JACKSON COUNTY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

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

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

Fire Fund – This fund receives fire contract and service fee monies for the operation and maintenance of the Village's fire department.

3. Enterprise Funds

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

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.

4. Fiduciary Fund (Agency Fund)

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village had the following Agency Fund:

Mayor's Court Fund – This fund receives fine money, a portion of which is paid into the Village's General Fund for maintaining the security of persons and property within the Village. The other portion of the fines received into this account is paid to the State of Ohio and any other agency as required by law.

E. Budgetary Process

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

**VILLAGE OF COALTON
JACKSON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2007 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. 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 CASH AND INVESTMENTS

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

	<u>2007</u>
Demand deposits	\$ 258,568
Certificates of deposit	22,521
Total deposits	<u>\$ 281,089</u>

**VILLAGE OF COALTON
JACKSON COUNTY**

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

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

At December 31, 2007, \$14,543 of demand deposits were not insured or collateralized, contrary to Ohio law.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2007 follows:

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 97,000	\$ 99,821	\$ 2,821
Special Revenue	65,875	71,932	6,057
Enterprise	208,500	222,761	14,261
Total	\$ 371,375	\$ 394,514	\$ 23,139

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 119,486	\$ 110,307	\$ 9,179
Special Revenue	58,007	51,901	6,106
Enterprise	196,075	179,217	16,858
Total	\$ 373,568	\$ 341,425	\$ 32,143

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment 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.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

5. DEBT

Debt outstanding at December 31, 2007 was as follows:

**VILLAGE OF COALTON
JACKSON COUNTY**

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

5. DEBT (Continued)

	Principal	Interest Rate
Mortgage Revenue Bonds (FmHA)	\$ 236,786	5.00%
2000 OWDA Sewer Plant Loan	7,273	2.20%
2005 OWDA Sewer Expansion Loan	51,725	5.16%
2007 Cruiser Lease	14,781	6.90%
Total	\$ 310,565	

The Farmers Home Administration (FmHA) Mortgage Revenue Bonds relate to a water and sewer plant project mandated by the Ohio Environmental Protection Agency. These bonds are to be paid from user charges for the utilities.

The 2000 Ohio Water Development Authority (OWDA) loan, originally issued in the amount of \$33,382, relates to equipment purchases and the installation of a wastewater treatment plant the Ohio Environmental Protection Agency mandated. The Village will repay the loans in semiannual installments of \$1,868.50, including interest, over 10 years. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The 2005 Ohio Water Development Authority (OWDA) loan, initially approved for \$175,000, is for the expansion and complete reconstruction of the Village's sewer processing facility. As of December 31, 2007, the Village had drawn out \$45,721 of the loan principal and been assessed \$6,004 in capitalized interest. The loan activity is reflected in the Sewer Enterprise Fund which received the proceeds and will repay the debt. The loan has not been fully drawn down nor has it been finalized as of December 31, 2007, and therefore, an amortization schedule has not been established.

The 2007 Cruiser Lease relates to a lease with Ford Motor Credit Company for the purchase of a police cruiser. The original amount of the lease was \$21,816. Quarterly lease payments in the amount of 1,994 are due throughout the term of the lease which concludes on December 23, 2009.

Amortization of the above debt, including interest, follows:

Year Ending December 31:	Mortgage Revenue Bonds (FmHA)	OWDA Loan	Cruiser Lease
2008	\$ 18,139	\$ 3,737	\$ 7,975
2009	18,224	3,737	7,975
2010	18,189	1,869	
2011	18,439		
2012	18,359		
2012-2016	94,382		
2017-2021	100,037		
2022-2026	85,309		
2027-2028	12,810		
Total	\$ 383,888	\$ 9,343	\$ 15,950

**VILLAGE OF COALTON
JACKSON COUNTY**

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

6. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police & Fire Pension Funds (OP&F). Other employees and elected officials belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits. The Ohio Revised Code also prescribes contribution rates. For 2007, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 9.5 percent of their wages in 2007. The Village contributed an amount equal to 13.85 percent of participants' gross salaries in 2007. The Village has paid all OPERS and OP&F contributions required through December 31, 2007.

7. RISK MANAGEMENT

The Village is exposed to various risks of 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. PEP is a member of the American Public Entity Excess Pool (APEEP). 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 Coverage

For an occurrence prior to January 1, 2006, PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides excess of funds available coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers' provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit.

**VILLAGE OF COALTON
JACKSON COUNTY**

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

7. RISK MANAGEMENT (Continued)

The aggregate stop-loss limit for 2006 was \$1,901,127.

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, 2006 and 2005 (the latest information available):

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$ 30,997,868	\$ 29,719,675
Liabilities	<u>(15,875,741)</u>	<u>(15,994,168)</u>
Retained Earnings	<u>\$ 15,122,127</u>	<u>\$ 13,725,507</u>
<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$ 5,125,326	\$ 4,443,332
Liabilities	<u>(863,163)</u>	<u>(1,068,245)</u>
Retained Earnings	<u>\$ 4,262,163</u>	<u>\$ 3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The casualty coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$30,000. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

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 by PEP for each year of membership.

<u>Contributions to PEP</u>		
2005	\$	14,859
2006	\$	15,137
2007	\$	15,278

**VILLAGE OF COALTON
JACKSON COUNTY**

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

7. RISK MANAGEMENT (Continued)

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. 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.

8. CONTINGENT LIABILITIES

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

9. VILLAGE FISCAL EMERGENCY

In August 1993, the Village was placed in a state of Fiscal Emergency, under Chapter 118 of the Ohio Revised Code and the Fiscal Commission was organized in January 1994. This emergency existed because the Village had a deficit fund balance in the General Fund and did not pay bills when due.

The Village is still considered in Fiscal Emergency, with the Local Government Services Division of the State Auditor's Office performing the duties as Financial Supervisor for the Village. On April 9, 2007, the Fiscal Commission has voted in favor of requesting the Auditor of State to release the Village from Fiscal Emergency.

10. FINANCIAL COMMITMENTS/SUBSEQUENT EVENTS

As of December 31, 2007, the Village had the following commitments:

- The Village owed the Bureau of Workers Compensation \$24,567 for the workers' compensation coverage on employees. On February 2008, the Village made an agreement with the Bureau of Workers Compensation to pay \$750 per month until this obligation is fully retired.
- The Village owed the Auditor of State \$33,661 in audit fees and had entered into a payment plan of \$400 per month to retire the outstanding balance.



Mary Taylor, CPA

Auditor of State

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

Village of Coalton
Jackson County
P.O. Box 98
Coalton, Ohio 45621

To the Village Council:

We have audited the financial statements of the Village of Coalton, Jackson County, Ohio (the Village), as of and for the year ended December 31, 2007, and have issued our report thereon dated April 24, 2008, wherein we noted the Village follows the accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. Additionally we noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Village's management in a separate letter dated April 24, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2007-001 through 2007-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated April 24, 2008.

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.



Mary Taylor, CPA
Auditor of State

April 24, 2008

VILLAGE OF COALTON
JACKSON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007

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

FINDING NUMBER 2007-001

Noncompliance Finding

Ohio Rev. Code Section 9.38 provides public money must be deposited by a public official other than a state officer, employee or agent with the treasurer of the public office or to a designated depository on the business day following the day of receipt if the total amount exceeds \$1,000. Public money collected for other public offices must be deposited by the first business day of the week following the date of collection.

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

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

Forty-seven percent of utility charges for services receipts were not deposited in a timely manner. Deposit dates ranged from 3 to 11 business days following the date of receipt. Deposits were made within 3 days of the date of receipt in the last four months of the audit period. In addition, sixty-three percent of Mayor's Court receipts were not deposited in a timely manner. Deposit dates ranged from 5 to 27 business days following the date of receipt. In the last four months of the audit period deposits not made timely ranged from 6 to 9 business days following the date of receipt. It was noted in both instances that there was a significant improvement in the last four months of the audit period. This could lead to the loss or theft of funds.

We recommend the Village consider adopting a policy addressing timely deposit and that all deposits are made in a timely manner.

Officials' Response:

The policy instituted in September 2007 seems to be working well and will be continued.

VILLAGE OF COALTON
JACKSON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007
(Continued)

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

FINDING NUMBER 2007-002

Noncompliance Finding

Ohio Rev. Code Section 135.18(A) provides, in part, that the treasurer shall require the institution designated as a public depository to pledge to and deposit with the treasurer, as security for the repayment of all public moneys to be deposited in the public depository during the period of designation pursuant to the award, eligible securities of aggregate market value equal to the excess of the amount of public moneys to be at the time so deposited, over and above the portion or amount of such moneys as is at that time insured by the federal deposit insurance corporation or by any other agency or instrumentality of the federal government.

At December 31, 2007, the demand deposits with the bank exceeded the \$100,000 federal deposit insurance limit and pledged securities in the amount of \$14,543.

As a result, the monies of the Village were not adequately protected against loss in the event of a bank failure.

We recommend the Village obtain additional specific pledged collateral for protection of the Village's monies, or alternatively, participate in the bank's public entity collateral pool, if used.

Officials' Response:

We have contacted the bank and they are responding with a letter to verify the additional collateralization for our account. We will continue to monitor this since funds are staying above \$100,000.

FINDING NUMBER 2007-003

Noncompliance Finding

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The Fiscal Officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" Certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

VILLAGE OF COALTON
JACKSON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007
(Continued)

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

FINDING NUMBER 2007-003 (Continued)

Noncompliance Finding – Ohio Rev. Code Section 5705.41(D)(1) (Continued)

1. “Then and Now” Certificate – (Continued)

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. Blanket Certificate – The fiscal officer 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.

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

Fifty-two percent of transactions tested were not certified by the Fiscal Officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, “then and now” certification should be used.

We recommend the Village 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 Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials’ Response:

The Village, through the use of the UAN system, presently uses the encumbrance method of accounting and will continue to do so. This requires the purchase orders be written and properly authorized by the Village Clerk and Council.

**VILLAGE OF COALTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2007-003 (Continued)

Noncompliance Finding – Ohio Rev. Code Section 5705.41(D)(1) (Continued)

Auditor’s Conclusion:

The Village began utilizing the UAN system in February of 2007. Prior to the implementation of UAN, the Village did not utilize the encumbrance method of accounting. However, there were still encumbering issues after the implementation of UAN. Purchase orders were prepared for all of the transactions tested. However, of the 27 transactions tested, there were fourteen encumbering errors noted. Three of the errors were because the Fiscal Officer did not sign the purchase order; therefore, the amounts were not properly certified. For the eleven other errors, the purchase order date was after the invoice date; therefore, the amounts were not properly certified.

FINDING NUMBER 2007-004

Noncompliance Citation

Ohio Admin. Code Section 117-2-02(C)(1) states that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, 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.

At December 31, 2007, estimated resources as approved by the Budget Commission did not agree to the Village’s ledgers for ten funds. This was due, in part, to the Village’s Fiscal Officer not posting the December amended certificate to the UAN system. The variances and funds are as follows:

Fund	Estimated Revenue Approved by Budget Commission	Estimated Revenue Posted to UAN System	Variance
General	\$ 97,000	\$ 80,000	\$ (17,000)
State Highway	1,625	1,500	(125)
Cemetery	3,000	1,000	(2,000)
Fire Department	20,750	8,850	(11,900)
CIB Sales Tax	19,500	18,500	(1,000)
Water	103,000	100,000	(3,000)
Sewer	46,000	41,102	(4,898)
Sewer CCR	19,500	18,196	(1,304)
Sewer RP	13,500	12,702	(798)
Trash	26,500	21,000	(5,500)

At December 31, 2007, we found appropriations as approved by the Village Council did not agree to the Village’s ledgers for ten funds. The variances and funds are as follows:

**VILLAGE OF COALTON
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2007-004 (Continued)

Noncompliance Citation - Ohio Admin. Code Section 117-2-02(C)(1) (Continued)

Fund	Appropriations per Ordinances	Appropriations Posted to UAN System	Variance
General	\$ 102,000	\$ 105,825	\$ (3,825)
Street Construction, Maintenance and Repair	16,250	16,997	(747)
Cemetery	4,750	5,233	(483)
Fire Department	23,000	24,096	(1,096)
CIB Sales Tax	10,000	12,465	(2,465)
Water	75,000	85,682	(10,682)
Sewer	43,000	46,064	(3,064)
Sewer CCR	20,000	14,391	5,609
Sewer RP	10,000	11,204	(1,204)
Trash	27,750	30,527	(2,777)

Due to budgetary information being improperly entered into the system, the management of the Village lost some degree of budgetary control.

We recommend the Fiscal Officer accurately post estimated receipts as certified by the County Budget Commission and appropriations as approved by the Village Council into the computer system and only after receiving approval. This procedure will help ensure more useful comparisons of budget versus actual activity, as well as provide management with an accurate monitoring tool throughout the year.

Officials' Response:

We will pay better attention to the budgetary numbers to see that these discrepancies do not occur again.

**VILLAGE OF COALTON
JACKSON COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	A Finding for Recovery for public money illegally expended against Sherman Tilley, former Village Administrator, and Majel Keairns, former Clerk-Treasurer, in the amount of \$1,104 for severance pay which was not supported by leave records.	No	Partially Corrected: The Village has taken steps to correct this matter, by hiring an attorney to pursue repayment.
2006-002	A Finding for Recovery for public money illegally expended was issued against Tisa Neal, former Utility Clerk, and Majel Keairns, former Clerk-Treasurer, in the amount of \$510.76 for severance pay which was not supported by leave records.	No	Partially Corrected: The Village has taken steps to correct this matter, by hiring an attorney to pursue repayment.
2006-003	A material citation was issued under Ohio Rev. Code Section 4141.01(B)(3)(c)(i) for unemployment payments paid to the ODJFS for Majel Keairns, former Clerk-Treasurer, and Marvin Bates, former Mayor.	No	Not Corrected: The Village has contacted ODJFS to determine if these monies can be refunded or if a future credit can be received. Noncompliance is not valid for current audit period.
2006-004	A material citation and material weakness was issued under Ohio Rev. Code Section 149.351(A) due to payroll tax remittances not having supporting documentation, missing duplicate receipts and supporting documentation for cemetery lot sales and openings/closings, lack of expenditure supporting documentation, and missing billing stubs.	Yes	N/A
2006-005	A material citation and significant deficiency was issued under Ohio Rev. Code Section 705.27 due to Council not defining who should be bonded and because position bonds were not obtained.	No	Partially Corrected: During 2007, the Village had employee dishonesty insurance coverage and Elected Officials Wrongful Acts insurance coverage. Reissued in the current audit Management Letter.

**VILLAGE OF COALTON
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-006	A material citation and material weakness was issued under Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations.	No	Partially Corrected: Reissued in the current audit Management Letter.
2006-007	A material citation and material weakness was issued under Ohio Rev. Code Section 5705.41(D)(1) for 100% of transactions not being encumbered.	No	Not Corrected: Reissued in the Schedule of Findings as 2007-003.
2006-008	A material citation and material weakness was issued under Ohio Admin. Code Section 117-2-02(D) for not maintaining a receipts ledger and appropriation ledger.	Yes	N/A



Mary Taylor, CPA
Auditor of State

VILLAGE OF COALTON

JACKSON 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
JUNE 19, 2008**