



Mary Taylor, CPA  
Auditor of State



VILLAGE OF MIDLAND  
CLINTON COUNTY

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Mary Taylor, CPA  
Auditor of State

Village of Midland  
Clinton County  
545 Hales Branch Rd.  
Midland, Ohio 45148

To the Village Council:

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

*Mary Taylor*

**Mary Taylor, CPA**  
Auditor of State

November 9, 2009

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Village of Midland  
Clinton County  
545 Hales Branch Rd.  
Midland, Ohio 45148

To the Village Council:

We have audited the accompanying financial statements of the Village of Midland, Clinton County, Ohio (the Village), as of and for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in the following paragraphs, 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 Auditor of State served during the years ended December 31, 2008 and 2007 as the Village's financial supervisor under Ohio Rev. Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to the audit the Village because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

The Village has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair an auditor's independence. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code § 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the office of budget and management or through the county auditor of the county in which the local public office is located. We believe our audit provides a reasonable basis for our opinion.

The Village did not provide sufficient documentation supporting the Charges for Services receipts as recorded in the General Fund. Without this evidential matter, we were unable to obtain sufficient information regarding the receipts recorded as Charges for Services for the General Fund, or to satisfy ourselves regarding the validity of the underlying transactions through other auditing procedures. Charges for Services receipts represent 38% of receipts recorded in the General Fund for the year ended December 31, 2007.

The Village advanced \$30,000 from the Street Construction, Maintenance and Repair (SCMR) Fund to the General Fund in 2005 in violation of Auditor of State Bulletin 1997-003 and Ohio Revised Code Sections 5705.09 (F) and 5705.10. Had this amount not been illegally advanced from the SCMR Fund, the effect would have been to increase the cash balance of the SCMR Fund by \$30,000 to \$62,191 and to decrease the cash balance of the General Fund by \$30,000 to (\$25,348) as of and for the year ended December 31, 2008.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2008 and 2007 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2008 and 2007, or its changes in financial position for the years then ended.

Also, in our opinion, except for the effects of adjustments, if any, as might have been determined to be necessary had we been able to examine documentation supporting General Fund Charges for Services receipts, and the effects of adjustments to eliminate the \$30,000 advance from SCMR Fund to General Fund, 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 Midland, Clinton County, as of December 31, 2008 and 2007, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The accompanying financial statements have been prepared assuming that the Village will continue as a going concern. As discussed in Note 9 to the financial statements, the Village has suffered recurring losses from operations and has a negative fund balance that raise substantial doubt about its ability to continue as a going concern. In addition, the Auditor of State has determined a fiscal emergency exists, and a financial planning and supervision commission has assumed certain management responsibilities for the duration of this emergency pursuant to Chapter 118 of the Ohio Rev. Code. Note 10 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 November 9, 2009, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

**Mary Taylor, CPA**  
Auditor of State

November 9, 2009

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**VILLAGE OF MIDLAND  
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>			
Property and Local Taxes	\$9,290	\$1,924	\$11,214
Intergovernmental	13,810	15,552	29,362
Charges for Services	600		600
Fines, Licenses and Permits	300		300
Earnings on Investments		53	53
Miscellaneous	<u>7,380</u>		<u>7,380</u>
Total Cash Receipts	<u>31,380</u>	<u>17,529</u>	<u>48,909</u>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property		1,000	1,000
Basic Utility Service	2,289		2,289
Transportation		6,624	6,624
General Government	<u>21,963</u>	<u>5,329</u>	<u>27,292</u>
Total Cash Disbursements	<u>24,252</u>	<u>12,953</u>	<u>37,205</u>
Total Receipts Over Disbursements	<u>7,128</u>	<u>4,576</u>	<u>11,704</u>
Fund Cash Balances, January 1	<u>(2,476)</u>	<u>36,008</u>	<u>33,532</u>
<b>Fund Cash Balances, December 31</b>	<b><u><u>\$4,652</u></u></b>	<b><u><u>\$40,584</u></u></b>	<b><u><u>\$45,236</u></u></b>
Reserve for Encumbrances, December 31	<u>\$19,147</u>	<u>\$379</u>	<u>\$19,526</u>

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

**VILLAGE OF MIDLAND  
CLINTON 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**

	<b>General</b>	<b>Special Revenue</b>	<b>Totals (Memorandum Only)</b>
<b>Cash Receipts:</b>			
Property and Local Taxes	\$9,786	\$2,135	\$11,921
Intergovernmental	13,513	12,615	26,128
Charges for Services	15,794		15,794
Fines, Licenses and Permits	75		75
Earnings on Investments	44	66	110
Miscellaneous	3,049		3,049
Total Cash Receipts	42,261	14,816	57,077
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property		600	600
Basic Utility Service	14,518		14,518
Transportation		1,157	1,157
General Government	32,547	27	32,574
Total Cash Disbursements	47,065	1,784	48,849
Total Receipts Over/(Under)	(4,804)	13,032	8,228
<b>Other Financing Receipts:</b>			
Sale of Fixed Assets		900	900
Total Other Financing Receipts	0	900	900
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(4,804)	13,932	9,128
Fund Cash Balances, January 1	2,328	22,076	24,404
<b>Fund Cash Balances, December 31</b>	<b>(\$2,476)</b>	<b>\$36,008</b>	<b>\$33,532</b>
Reserve for Encumbrances, December 31	\$1,116	\$1,775	\$2,891

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

**VILLAGE OF MIDLAND  
CLINTON COUNTY**

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

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Midland, Clinton County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides street and highway maintenance. The Village provided trash services during 2007, but services were discontinued in 2008. The Village contracts with the Clinton County Sheriff's department to provide security of persons and property. The Village contracted with the Clinton South Joint Fire District to receive fire protection services. The District ceased operations in February 2009 and the operations reverted back to Jefferson Township. (see Note 7)

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. Cash Deposits**

Village funds are deposited in a checking account with a local commercial bank. Interest earned is recognized and recorded when received.

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

These funds account for proceeds from specific sources that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

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 MIDLAND  
CLINTON COUNTY

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

1. **Summary of Significant Accounting Policies (Continued)**

**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.

**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 use the encumbrance method of accounting. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2008 and 2007 budgetary activity appears in Note 3.

**F. Property, Plant, and Equipment**

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

2. **Equity in Pooled Cash and Deposits**

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

	2008	2007
Demand deposits	<u>\$45,236</u>	<u>\$33,532</u>

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation.

**VILLAGE OF MIDLAND  
CLINTON COUNTY**

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

**3. Budgetary Activity**

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

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$30,750	\$31,380	\$630
Special Revenue	16,560	17,529	969
Total	\$47,310	\$48,909	\$1,599

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$33,382	\$43,399	(\$10,017)
Special Revenue	20,409	13,332	7,077
Total	\$53,791	\$56,731	(\$2,940)

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$41,717	\$42,261	\$544
Special Revenue	11,602	15,716	4,114
Total	\$53,319	\$57,977	\$4,658

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$51,573	\$48,181	\$3,392
Special Revenue	18,194	3,559	14,635
Total	\$69,767	\$51,740	\$18,027

**4. Property Tax**

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

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

**VILLAGE OF MIDLAND  
CLINTON COUNTY**

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

**4. Property Tax (Continued)**

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

**5. Retirement Systems**

The Village's 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.

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

**6. Risk Management**

**Commercial Insurance**

The Village has obtained commercial insurance for the following risks:

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

**7. Related Organizations**

The constitution and laws of the State of Ohio establish the rights and privileges of the Clinton South Joint Fire District, Clinton County, Ohio (the District) as a body corporate and politic. A two-member Board of Trustees governed the District. The Village appointed one member of the two-member Board of Trustees to the Clinton South Joint Fire District. The other member was appointed by Jefferson Township. The District dissolved in February 2009.

**8. Compliance**

An advance of \$30,000 was made in 2005 from the Street Construction, Maintenance and Repair Fund to the General Fund without the documented approval of Village Council in the Village Council minutes. In addition, the advance was illegal since Street Funds are restricted to street-related disbursements.

Village did not post tax and intergovernmental receipts as required by ORC Sections 5705.09 (F), 4501.04, 5735.28 and 5735.23, resulting in many audit adjustments.

The Village failed to accurately maintain the Village's books as required by Ohio Revised Code Section 733.28 and Ohio Administrative Code Section 117-2-02(D).

The Village failed to maintain a full and accurate record of the Village Council's proceedings as required by Ohio Revised Code Sections 121.22, 731.20 and 149.43.



**VILLAGE OF MIDLAND  
CLINTON COUNTY**

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

**8. Compliance (Continued)**

The Village failed to maintain records as required by Ohio Revised Code Section 149.351.

**9. Fiscal Emergency Determination**

The Auditor of State, Local Government Services Division (LGS) was contacted by the Village regarding their financial difficulties and LGS is currently assisting the Village. LGS performed a fiscal analysis under the criteria established in Ohio Revised Code, Chapter 118. On November 30, 2006, the Local Government Services Division of the Auditor of State's Office issued a report to officials of the Village, which details the criteria and results of the fiscal emergency review. The conclusion of this report was that a fiscal emergency existed under Sections 118.03(A)(5) and 118.03(B). The Village of Midland was declared under fiscal emergency on November 30, 2006. As of December 31, 2008, the General had a balance of \$4,652 and reserve for encumbrances of \$19,147. This cash fund balance was covered primarily by the \$32,191 cash balance in the Street Construction Maintenance and Repair Fund which included the effects of the illegal advance of \$30,000 from the Street Construction Maintenance and Repair Fund to the General Fund.

On November 3, 2007, the Village Council adopted a Financial Recovery Plan. To increase revenues, the Village official's placed a new 3 mill current expense levy on the ballot (which failed in March and November 2008), and discontinuance of refuse collection and disposal services. To decrease expenses, the Village discontinued the former Fiscal Officer's cell phone, discontinued use of the VISA card and a reduction in materials and supplies expenditures.

**10. Subsequent Events**

The Village passed a 3 mill operating levy on November 3, 2009.

On April 6, 2009, the Village received \$8,858.45 from the Cincinnati Insurance Company, bonding company, as payment for the Finding for Recovery issued against the former fiscal officer, Vivian Dearth.

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# Mary Taylor, CPA

## Auditor of State

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

Village of Midland  
Clinton County  
545 Hales Branch Rd.  
Midland, Ohio 45148

To the Village Council:

We have audited the financial statements of the Village of Midland, Clinton County, Ohio (the Village), as of and for the year ended December 31, 2008 and 2007, and have issued our report thereon dated November 9, 2009, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We qualified our report on the General Fund Charges for Services line item for a lack of supporting documentation for trash collection receipts and on the illegal advance from SCMR Fund to General Fund. In addition, the Auditor of State served during the year ended December 31, 2008 and 2007 as the Village's financial supervisor under Ohio Rev. Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to the audit the Village because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05 (G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Also, the Village has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair an auditor's independence. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code § 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the office of budget and management or through the county auditor of the county in which the local public office is located. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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

We consider findings 2008-001, 2008-003, 2008-004, and 2008-005 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe findings number 2008-001, 2008-003 and 2008-004 are also material weaknesses.

We also noted certain noncompliance and internal control matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated November 9, 2009.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 through 2008-004.

We did note certain noncompliance or other matters that we reported to the Village's management in a separate letter dated November 9, 2009.

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 response and, accordingly, we express no opinion on them.

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

November 9, 2009

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**VILLAGE OF MIDLAND  
CLINTON COUNTY**

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

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

**FINDING NUMBER 2008-001**

**NonCompliance Citation/Material Weakness**

**Ohio Rev. Code, Section 5705.09(F)**, provides that each subdivision shall establish a special fund for each source of revenue derived from a source other than the general property tax which the law requires to be used for a particular purpose. Monies were not always posted to the particular fund specified by their purpose. Ohio Rev. Code Section 5705.10(H) provides that monies paid into any fund shall be used only for the purpose for which such fund is established.

**Ohio Rev. Code, Section 4501.04**, provides that auto registration fees distributed by the County Auditor per Ohio Rev. Code Section 4501.03 be paid into the municipal treasury to be used for purposes related to municipal streets. The fund established by the Village for these receipts and expenditures is the Street Construction, Maintenance, and Repair Fund.

**Ohio Rev. Code, Section 5735.28**, provides that whenever a municipal corporation is on the line of a state highway, that seven and one-half percent of the amount paid to a municipal corporation pursuant to sections 4501.04, 5735.23, and 5735.27 of the Revised Code be credited to the State Highway Fund for purposes related to state highways within the municipal corporation. The fund established by the Village for these receipts and expenditures is the State Highway Fund.

**Ohio Rev. Code, Section 5735.23(C)(2)(a)**, provides that gasoline excise tax distributed from the State and Local Government Highway Distribution Fund pursuant to Ohio Rev. Code, Section 5735.27(A)(1) be used pursuant to that section. Ohio Rev. Code Section 5735.27 provides that gasoline excise tax distributed from the Gasoline Excise Tax Fund be used for municipal street expenditures. The fund established by the Village for these receipts and expenditures is the Street Construction, Maintenance, and Repair Fund.

According to above laws, the monthly distributions from the County designated as "Motor Vehicle Registration Fees," "Gasoline Tax to Municipalities" and "Gasoline Cents Per Gallon" must be posted to the Village funds at the rate of ninety two and one half percent (92 ½%) to the Street Construction, Maintenance, and Repair Fund and seven and one half percent (7 ½%) to the State Highway Fund. The Village did not post these distributions to the correct funds using the above percentages. The Village paid for street lighting from the Street Construction, Maintenance and Repair Fund instead of the General Fund. The Village also posted property taxes, homestead and rollback, to the wrong funds and at the net amount instead of the gross amount. The following table reflects the net effect of the adjustments to the audit report:

<b>Fund</b>	<b>Net Effect of Adjustments on Fund Balance Increase/(Decrease) at December 31, 2008</b>
General	(\$5,748)
Street Construction, Maintenance and Repair	\$6,541
State Highway	\$ 39
Police Levy	\$ 318
Permissive Motor Vehicle License	(\$1,150)

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

The Village recorded audit adjustments listed above in their accounting records and in the accompanying financial statements to properly reflect receipts, disbursements and fund balances of the Village as of December 31, 2008 and 2007. Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Village funds, 2) reduces the Council's ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the financial statements will be misstated.

We recommend the Fiscal Officer accurately maintain the accounting records in accordance with the uniform accounting system prescribe by the Auditor of State. The Village should adopt procedures to properly monitor the Village's financial activity.

**Officials' Response:**

The requested audit adjustments were made to the 2008 and 2009 cash books. The proper percentages are now used to distribute Registration Fees and Gas tax to the correct funds. Beginning 2010 the Village will begin paying the street lights expense from the General Fund.

**FINDING NUMBER 2008-002**

**Noncompliance Citation**

White v. Clinton Cty. Bd. of Comm'rs (1996), 76 Ohio St.3d 416, and Ohio Rev. Code Sections 121.22, and 149.43 impose a duty on the Village to maintain a full and accurate record of their proceedings. Further, minutes of meetings must be promptly recorded and open for public inspection in accordance with State, ex rel. Fairfield Leader v. Ricketts (1990), 56 Ohio St.3d 97.

**Ohio Rev. Code § 121.22(C)** states, in part, that all meetings of any public body are to be open to the public at all times. The minutes of a regular or special meeting of any such public body shall be promptly prepared, filed, and maintained and shall be open to public inspection.

**Ohio Rev. Code Section 731.20** states ordinances, resolutions, and bylaws shall be authenticated by the signature of the presiding officer and clerk of the legislative authority of the municipal corporation. Ordinances of a general nature or providing for improvements shall be published as provided by sections 731.21 and 731.22 of the Revised Code before going into operation. No ordinance shall take effect until the expiration of ten days after the first publication of such notice. As soon as a bylaw, resolution, or ordinance is passed and signed, it shall be recorded by the clerk in a book furnished by the legislative authority for that purpose.

During our review of the minutes, we noted the following items:

- Minutes records could not be located for the meetings held in May 2007;
- The Village Official's did not always sign the minute record containing ordinances and resolutions that attested to their accuracy;
- Minutes were not recorded and maintained in a pre-numbered permanent bound book;
- Decisions and Village Council business was discussed in general, but no formal action was taken and noted in the monthly Council meetings;
- The Village records the meeting on an audio cassette recorder. Some minutes were lost when the recording stopped;



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

- Minutes were not properly numbered or indexed; and all annual financial data, including appropriations, transfers, required reports, salary increases, etc., were not made a permanent part of the minute records. We also noted that reconciliations were performed by the fiscal officer, but there is no indication that a person independent of the reconciliation process is reviewing and approving the reconciliation. This could cause misappropriation of funds to occur and not be detected.

These weaknesses caused the minute records to be incomplete, and make it difficult to locate pertinent information. In addition, this creates the opportunity for the records to be altered, lost, or misplaced. As the Council speaks only through its record of proceedings (minutes), we recommend the following to help ensure that the minutes properly reflect parliamentary procedures and the actions of the council.

- Minutes should be prepared on a timely basis and presented at the subsequent council meeting and approved by Council. All resolutions and ordinances should be numbered and made a part of a permanent record of proceedings;
- All council actions should be indexed under proper headings to provide easy access to all Village resolutions;
- Minutes containing ordinances and resolutions should be signed by the Village officials affirming their accuracy;
- Each topic, resolution, motion, etc. should be sub-headed or identified either in the margin or at the head of each paragraph for easier reading and referencing;
- The Fiscal Officer should present the Council Members with a detailed list of bills to be paid by the Village. After review of bills the Council Member should include and document approval to pay bills in the minutes;
- Review of the annual financial data, including budgets, appropriations, transfers, salaries, bank reconciliations, required reports, and any advertisements for the same, should be documented as a permanent part of the minute records.

Prompt review of the minutes allows the Council the ability to make any necessary changes in a timely fashion. Implementation of these procedures would aid in ensuring that the minute record would be an accurate reflection of the Council's actions and would assist in locating specific actions of the Council.

**Officials' Response:**

The Village has made improvements. Minutes are prepared on a timely basis. They include the proper heading for easy access to each topic. All resolutions, ordinance, motions and list of bills approved for payment are included. Minutes are reviewed and approved by council at the subsequent council meetings. The minutes are signed by the mayor and fiscal officer and kept in the minute book by date order. All resolutions and ordinances are numbered and kept in the Resolution/Ordinance book by date order.

### FINDING NUMBER 2008-003

#### Finding for Adjustment/Noncompliance Citation/Material Weakness

**Auditor of State Bulletin 1997-003** states that advances must be approved by a formal resolution of the taxing authority of the subdivision. This resolution must include a specific statement that the transaction is an advance of cash, and an indication of the money (fund) from which it is expected that repayment will be made. **Auditor of State Bulletin 1997-003** also states that in order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established.

In 2005, the Village Council authorized the movement of \$30,000 from the Street Construction Maintenance and Repair fund to the General fund. Although a resolution was located approving this movement of monies, the resolution labeled the transaction as a transfer and its approval was not documented in the written minute record of the Village Council. Upon further inquiry, the Auditor of State Local Governmental Services Division determined that the Village Council intended for this to be an advance. The resolution approving this transaction did not meet the requirements listed above by indicating it was an advance nor did it indicate when repayment would be made. In addition, Street Construction Maintenance and Repair fund monies are restricted for street related disbursements, and therefore the movement of \$30,000 from the Street Construction Maintenance and Repair fund to the General fund was not allowed. This Finding was reported in the 2006 audit report as Finding 2006-006 and has yet to be repaid as of November 9, 2009.

**Ohio Rev. Code, Sections 5705.09(F) and 5705.10**, restrict the use of Street Construction Maintenance and Repair Fund to street related disbursements. Had this amount been properly returned from the General Fund to the Street Construction Maintenance and Repair Fund, the effect would have been to increase the cash balance of the Street Construction Maintenance and Repair Fund by \$30,000 to \$62,191 and to decrease the cash balance of the General Fund by \$30,000 to (\$25,348) as of and for the year ended December 31, 2008.

In accordance with the foregoing facts, we hereby re-issue a finding for adjustment against the General Funds and in the amount of \$30,000 in favor of the Village of Midland's Street Construction Maintenance and Repair Fund.

#### Officials' Response:

The \$30,000 advancement has created a Fiscal Emergency status for the Village. The Village did recovery \$8,858.45 from the theft in office claim from the prior fiscal officer and is expected to recover an additional \$4,719.64. This money will be used to pay a portion of the advancement back to the Street Fund. The Village is still in a fiscal emergency state but is working to pay the remaining balance of the advancement.

### FINDING NUMBER 2008-004

#### NonCompliance Citation/Material Weakness

**Ohio Rev. Code, Section 733.28**, states that the village fiscal officer must keep the books of the village, exhibit accurate statements of all moneys received and expended, all property owned by the Village and income derived thereof, and all taxes and assessments.

**Ohio Admin. Code, Section 117-2-02(D)**, states 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:

**FINDING NUMBER 2008-004**

- (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) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.
- (3) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
  - a. Utilities billing records including:
    - i. Master file of service address, account numbers, billing address, type of services provided, and billing rates;
    - ii. Accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and non-cash adjustments, each maintained by date and amount;
    - iii. Cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above

Although the Village Fiscal Officer maintained some accounting records, the records contained numerous posting errors resulting audit adjustments and reclassifications to the 2007 and 2008 financial statements and accounting records as noted in Finding 2008-002. In addition, no receipts ledger, appropriation ledger or utility billing subsidiary ledger was maintained in 2007. As a result, the records maintained by the Fiscal Officer were not an accurate reflection of all moneys received and expended.

Ninety percent of the purchases tested during 2007 and seventy six percent of the purchases tested during 2008 were initiated without obtaining the prior certification of the Clerk/Treasurer and were not subsequently approved by the Village within the aforementioned 30 day time period. Failure to properly encumber resulted in overspending funds and negative cash fund balances. Adjustments have been posted to the financial statements to record outstanding encumbrances of \$19,526 at December 31, 2008 and \$2,891 at December 31, 2007.

Unless the Village uses the exceptions noted above, prior certification is not only required by statute but also 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 Clerk/Treasurer certify that 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.

**FINDING NUMBER 2008-004  
(Continued)**

In addition, during 2007 the Village contracted with Waste Management to provide trash pickup service for the citizens of the Village. The Village billed and collected from the individual households and businesses for this service. The Village did not maintain a subsidiary ledger or roster of households that were billed for trash collection; instead the fiscal officer maintained individual account cards with the household information listed on the card. The account card included a running tally of the amounts billed and the amounts collected; however, no reconciliation was performed between the total amount billed, the total amount collected, and the total amount outstanding. Our analysis indicated that the Village billed \$21,180 for trash services during 2007 and collected \$12,420 with an additional amount of \$2,740 collected from prior balances. Analysis indicated that there should have been approximately \$8,760 in delinquent trash bill receipts. The Village provided no evidence that they attempted to collect on delinquent accounts and no plans have been made to collect on the past due amounts. We noted that Waste Management billed the Village for 109 customers at a rate of \$10.24 per customer. This amounted to a total of \$13,393.92 for trash pickup services that the Village paid during 2007, while the Village collected only \$12,420. The Village discontinued trash collection billing in 2008. Since the Village is experiencing fiscal distress then we recommend that the Village officials review the trash delinquencies to determine if any additional monies can be collected on these accounts.

Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Village funds, 2) reduces the Councils' ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the Village's financial statements will be misstated.

We recommend the Village Fiscal Officer accurately maintain the Village's accounting records in accordance with the Ohio Administrative Code. The Village should develop policies and procedures outlining the security of all records or take a written inventory of all records noting the records description and location. All records should be maintained in a secure central location, such as locked file cabinets or in a locked office, with access limited to specific officials and/or personnel. Disposal of records should only be made in accordance with an approved records retention schedule. In addition, all supporting documentation of receipts, expenditures, and bank reconciliations should be maintained. For added accountability, we recommend Council review all bank reconciliations for accuracy and ensure that all reconciling items are justified.

We also recommend the officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 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 5705.41(D) are satisfied. The Village should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

**Officials' Response:**

As of January 2008 the Village no longer provides any utility service. Judgments were granted against those with delinquent accounts but no money could be collected. Improvements were made in 2008 with maintenance of receipts and appropriation ledgers.

**FINDING NUMBER 2008-005**

**Significant Deficiency**

When designing the public office's system of internal control and the specific control activities, management should consider the following:

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

- Ensure that all transactions are properly authorized in accordance with management's policies.
- Ensure that accounting records are properly designed.
- Plan for adequate segregation of duties or compensating controls.
- Perform analytical procedures to determine the reasonableness of financial data.
- Ensure the collection and compilation of the data needed for the timely preparation of financial statements.

The small size of the Village did not allow for an adequate segregation of duties. The fiscal officer processes all the financial record keeping including receipting, posting, and reconciling to the depository. Bookkeeping errors occurred without the detection of management. It is, therefore, important that Council monitor financial activity.

The following weaknesses were noted:

- Monthly financial reports such as budget and actual and bank reconciliations were not always presented to the Council for their review;
- Invoices contained no indication (e.g., initials) that someone had performed a comparison between the items included on the invoices and the items received;
- Invoices were not always attached to the voucher packet to support the validity of the expenditure. We were able to perform alternative audit procedures to determine that expenditures were for a proper public purpose;
- The Village posted \$1,102.17 in permissive motor vehicle license tax as intergovernmental receipts during 2007. As a result, the records maintained by the fiscal officer were not an accurate reflection of all moneys received and expended by the Village;
- The Village paid bills late and did not always pay the invoice amounts in full. Not paying bills on time or in full may result in late fees and penalties being assessed to the Village;
- One check was completed with the date, amount and was signed by the Mayor, but the payee was left blank;

Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Village funds, 2) reduces the Council's ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the financial statements will be misstated. We recommend that the fiscal officer review the chart of accounts to assure that items are being posted to the proper funds and account codes.

To help strengthen the Village's internal control structure and reduce the likelihood of undetected errors, we recommend the Village's officials and management implement the following controls:

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

- Monthly budget and actual financial reports be prepared and submitted to Council. This submission should occur prior to the regular Council meetings so that council members have an opportunity to review the information and ask informed questions at the meetings. Discussion of the monthly financial reports should be documented in the minutes;
- When invoices are received, a comparison should be made between the goods/services included on the invoice and the goods/services received. The official/department head which received the goods should perform this comparison and indicate his/her review by initializing the invoice. The initials indicate the goods/services were received and the invoice is approved for payment. Invoices should be attached to all voucher packets;
- Once invoices have been approved for payment, the Clerk/Treasurer should issue the corresponding check and stamp the invoice "Paid." The invoice should be filed with the voucher packet;
- Bills should be paid on a timely basis and in the full amount;
- Prior to signing the checks, the council member should agree the vendor name and amount on the check to the invoice;
- Record voided checks as such and not reassign check number to another expenditure;
- Vouchers packets including supporting documentation should be maintained in numerical sequence;
- Officials should periodically review the accounting records and financial statements to determine accuracy and to assure themselves that proper procedures are followed by the fiscal officer;
- The fiscal officer should always provide the Council with detailed budget and actual financial statements, cash balances, checks paid, outstanding encumbrances, receipts and bank reconciliations. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.

**Officials' Response:**

Improvements were made in 2008. The Village's voucher packets include all support for each expenditure. Council reviews all voucher packets and approves bills at each council meeting. The bills are paid in full on a timely basis. No additional late fees are incurred by the Village. The voucher packets are filed in numerical sequence.

Currently each month council receives the bank reconciliation. The statement includes fund balances and debits and credits to each fund. Beginning in December 2009 council will also receive a summary of the appropriations and revenue ledgers. Each council member will signed that they have received and reviewed the document received.

**VILLAGE OF MIDLAND  
CLINTON COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2006-001	Finding for Recovery against Vivian Dearth for overpayment of salary.	No	Partial payment received from her bonding company.
2006-002	Finding for Recovery against Vivian Dearth for unauthorized expenditures.	No	Partial payment received from her bonding company.
2006-003	Finding for Recovery against Vivian Dearth for unauthorized use of the Village's VISA credit card.	No	Partial payment received from her bonding company.
2006-004	Finding for Recovery against Vivian Dearth for unauthorized use of the Village's Marathon credit card.	No	Partial payment received from her bonding company.
2006-005	Finding for Recovery against the Council members for overpayment of salaries.	No	No longer valid.
2006-006	Ohio Rev. Code Sections 5705.09(F) and 5705.10 for illegal transfers.	No	Reissued as Finding 2008-003.
2006-007	Ohio Rev. Code Sections, 5705.09(F), 4501.04, 5735.28, 5735.23 (C)(2)(a) motor vehicle license tax and gas tax were not posted to the proper funds.	No	Reissued as Finding 2008-001.
2006-008	Ohio Rev. Code Section 733.28 and Ohio Adm. Code 117-2-02 the fiscal officer did not maintain accurate records.	No	Reissued as Finding 2008-004.
2006-009	Ohio Rev. Code Section 117.38 the Village did not file an annual financial report.	Yes	
2006-010	Ohio Rev. Code Section 5705.10 (H) the Village had a negative fund balance.	No	Not cited under provisions outlined in Ohio Rev. Code Section 118
2006-011	Ohio Rev. Code Section 5705.41(D) the Village did not properly encumber funds.	No	Not cited under provisions outlined in Ohio Rev. Code Section 118
2006-012	Ohio Rev. Code Section 5705.38(A) the Village did not prepare or file their annual appropriations	Yes	

Village of Midland  
Clinton County  
Schedule of Prior Audit Findings  
Page 2

2006-013	Ohio Rev. Code Section 5705.36A(2) estimated receipts exceeded actual receipts.	No	Not cited under provisions outlined in Ohio Rev. Code Section 118.
2006-014	The Village did not maintain an adequate system of internal controls.	No	Reissued as Finding 2008-005.
2006-015	Ohio Rev. Code Sections 121.22(C)(G), 731.20 The Village did not maintain the minutes.	No	Reissued as Finding 2008-002.
2006-016	Ohio Rev. Code Section 149.351 The Village did not maintain records.	No	Reissued in the Letter to Management.
2006-017	Ohio Rev. Code Section 9.38 the Village did not deposit receipts on a timely basis.	Yes	
2006-018	The Village did not maintain adequate control over their trash collection receipts.	No	Reissued as Finding 2008-004.
2006-019	The Village did not maintain a policy and procedures manual.	No	Reissued in the Letter to Management.
2006-020	Weaknesses were noted over the payroll disbursement cycle.	No	Reissued in the Letter to Management.





Mary Taylor, CPA  
Auditor of State

**VILLAGE OF MIDLAND**

**CLINTON COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 10, 2009**