

Village of South Charleston, Ohio
Clark County

Financial Statements – Cash Basis
December 31, 2007 and 2006
(with Independent Auditors' Report)



Mary Taylor, CPA

Auditor of State

Village Council
Village of South Charleston
35 South Chillicothe Street
South Charleston, Ohio 45368

We have reviewed the *Independent Auditors' Report* of the Village of South Charleston, Clark County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

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Mary Taylor, CPA
Auditor of State

March 25, 2009

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INDEPENDENT AUDITORS' REPORT

Village Commission
Village of South Charleston, Ohio
Clark County
35 South Chillicothe Street
South Charleston, Ohio 45368

We have audited the accompanying financial statements of the Village of South Charleston, Clark County, Ohio, (the Village) as of and for the years ended December 31, 2007 and 2006. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State of Ohio 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 requires presenting entity wide statements and also to present 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 of Ohio permits, but does not require governments 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 permitted by the Auditor of State.

The Village did not complete cash reconciliations during the audit period, its primary internal control procedure. Subsequent attempts to reconcile the Village's cash balances in the accounting records to the depository balances indicated the overall ending fund balance of the Village's funds as reported within these financial statements are understated by approximately \$136,000 and \$128,500 at December 31, 2007 and 2006, respectively. However, the Village could not identify which funds or which accounts within the funds needed to be adjusted to correct the ending cash balances.

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springfield, oh 45503

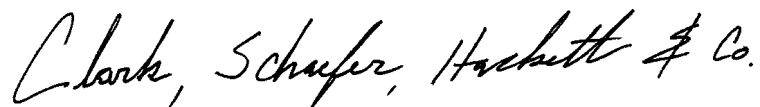
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In our opinion, because of the effects of the matter discussed the third and fourth paragraphs above, the financial statements referred to above, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2007 and 2006, or its changes in financial position or cash flows, where applicable, for the years then ended.

Also, in our opinion, because of the effects of the matter discussed in the fifth paragraph above, the financial statements referred to above do not present fairly, in all material respects, the combined fund cash balances of the Village of South Charleston, Clark County, Ohio as of December 31, 2007 and 2006, or its combined cash receipts and cash disbursements for the years then ended in accordance with the basis of accounting described in Note 1.

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 February 16, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

A handwritten signature in cursive script that reads "Clark, Schaefer, Hackett & Co." The signature is written in black ink and is positioned above the typed name and date.

Springfield, Ohio
February 16, 2009

VILLAGE OF SOUTH CHARLESTON
CLARK 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

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 70,676	\$ -	\$ 70,676
Municipal Income Tax	394,985	-	394,985
Intergovernmental Receipts	80,988	89,778	170,766
Charges for Services	80	15,884	15,964
Fines, Licenses, and Permits	44,423	1,275	45,698
Earnings on Investments	11,575	8,157	19,732
Contributions	9,574	-	9,574
Miscellaneous	6,543	297	6,840
Total Cash Receipts	<u>618,844</u>	<u>115,391</u>	<u>734,235</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	143,275	-	143,275
Public Health Services	-	14,491	14,491
Transportation	-	85,404	85,404
General Government	423,626	523	424,149
Capital Outlay	4,086	37,642	41,728
Total Cash Disbursements	<u>570,987</u>	<u>138,060</u>	<u>709,047</u>
Total Receipts Over/(Under) Disbursements	<u>47,857</u>	<u>(22,669)</u>	<u>25,188</u>
Other Financing Receipts and (Disbursements):			
Other Financing Sources	16	-	16
Other Financing Uses	(7,286)	(793)	(8,079)
Total Other Financing Receipts/(Disbursements)	<u>(7,270)</u>	<u>(793)</u>	<u>(8,063)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	40,587	(23,462)	17,125
Fund Cash Balances, January 1	<u>(25,585)</u>	<u>178,412</u>	<u>152,827</u>
Fund Cash Balances, December 31	<u>\$ 15,002</u>	<u>\$ 154,950</u>	<u>\$ 169,952</u>

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

VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY

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

	Proprietary	Fiduciary		Totals (Memorandum Only)
	Fund Types	Fund Types		
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$ 454,604	\$ -	\$ -	\$ 454,604
Court Fines & Costs	-	-	30,649	30,649
Earnings on Investments	-	2,110	-	2,110
Total Operating Cash Receipts	454,604	2,110	30,649	487,363
Operating Cash Disbursements:				
Personal Services	60,821	-	-	60,821
Fringe Benefits	12,901	-	-	12,901
Contractual Services	98,442	-	-	98,442
Supplies and Materials	35,595	-	-	35,595
Other	3,380	-	-	3,380
Distribution of Court Fines	-	-	30,649	30,649
Capital Outlay	14,950	-	-	14,950
Total Operating Cash Disbursements	226,089	-	30,649	256,738
Operating Income/(Loss)	228,515	2,110	-	230,625
Non-Operating Cash Receipts:				
Earnings on Investments	327	-	-	327
Total Non-Operating Cash Receipts	327	-	-	327
Non-Operating Cash Disbursements:				
Redemption of Principal	134,382	-	-	134,382
Interest and Other Fiscal Charges	65,246	-	-	65,246
Total Non-Operating Cash Disbursements	199,628	-	-	199,628
Net Receipts Over/(Under) Disbursements	29,214	2,110	-	31,324
Fund Cash Balances, January 1	247,895	34,761	-	282,656
Fund Cash Balances, December 31	\$ 277,109	\$ 36,871	\$ -	\$ 313,980

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

VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 76,484	\$ -	\$ 76,484
Municipal Income Tax	348,710	-	348,710
Intergovernmental Receipts	80,186	81,416	161,602
Charges for Services	-	13,249	13,249
Fines, Licenses, and Permits	49,928	1,627	51,555
Earnings on Investments	1,999	1,186	3,185
Contributions	2,675	-	2,675
Miscellaneous	11,990	-	11,990
Total Cash Receipts	<u>571,972</u>	<u>97,478</u>	<u>669,450</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	159,511	-	159,511
Public Health Services	-	14,271	14,271
Transportation	-	57,824	57,824
General Government	453,655	113	453,768
Capital Outlay	34,930	24,377	59,307
Total Cash Disbursements	<u>648,096</u>	<u>96,585</u>	<u>744,681</u>
Total Receipts Over/(Under) Disbursements	<u>(76,124)</u>	<u>893</u>	<u>(75,231)</u>
Other Financing Receipts and (Disbursements):			
Loan Proceeds	-	100,600	100,600
Other Financing Uses	(9,072)	-	(9,072)
Other Financing Sources	-	561	561
Total Other Financing Receipts/(Disbursements)	<u>(9,072)</u>	<u>101,161</u>	<u>92,089</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(85,196)	102,054	16,858
Fund Cash Balances, January 1	<u>59,611</u>	<u>76,358</u>	<u>135,969</u>
Fund Cash Balances, December 31	<u>\$ (25,585)</u>	<u>\$ 178,412</u>	<u>\$ 152,827</u>

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

VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Proprietary	Fiduciary		Totals (Memorandum Only)
	Fund Types	Fund Types		
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$ 485,337	\$ -	\$ -	\$ 485,337
Court Fines & Costs	-	-	42,865	42,865
Earnings on Investments	-	6	-	6
Total Operating Cash Receipts	<u>485,337</u>	<u>6</u>	<u>42,865</u>	<u>528,208</u>
Operating Cash Disbursements:				
Personal Services	64,004	-	-	64,004
Fringe Benefits	13,577	-	-	13,577
Contractual Services	98,597	-	-	98,597
Supplies and Materials	30,153	-	-	30,153
Other	5,536	-	-	5,536
Distribution of Court Fines	-	-	42,865	42,865
Capital Outlay	23,670	-	-	23,670
Total Operating Cash Disbursements	<u>235,536</u>	<u>-</u>	<u>42,865</u>	<u>278,401</u>
Operating Income/(Loss)	<u>249,801</u>	<u>6</u>	<u>-</u>	<u>249,807</u>
Non-Operating Cash Receipts:				
Earnings on Investments	865	-	-	865
Total Non-Operating Cash Receipts	<u>865</u>	<u>-</u>	<u>-</u>	<u>865</u>
Non-Operating Cash Disbursements:				
Redemption of Principal	135,795	-	-	135,795
Interest and Other Fiscal Charges	72,764	-	-	72,764
Total Non-Operating Cash Disbursements	<u>208,559</u>	<u>-</u>	<u>-</u>	<u>208,559</u>
Net Receipts Over/(Under) Disbursements	42,107	6	-	42,113
Fund Cash Balances, January 1	<u>205,788</u>	<u>34,755</u>	<u>-</u>	<u>240,543</u>
Fund Cash Balances, December 31	<u>\$ 247,895</u>	<u>\$ 34,761</u>	<u>\$ -</u>	<u>\$ 282,656</u>

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Description of the entity

The Village of South Charleston, Clark County (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Pursuant to the provisions of Article XVIII of the Constitution of Ohio, the voters of the Village adopted a charter for the government of the Village on October 16, 1917. The Village is directed by a publicly-elected three-member Commission. The Village provides general governmental services, including water and sewer utilities, and police services.

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

Basis of accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

Cash and investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit and U.S. Savings Bonds are valued at cost.

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:

General Fund – The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund – These funds are used to account for proceeds from specific sources (other than from 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 tax money for constructing, maintaining and repairing Village streets.

VILLAGE OF SOUTH CHARLESTON, OHIO, Clark County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

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

Water Fund – This fund receives charges for services from residents to cover the cost of providing this utility. This fund receives loan proceeds from the Ohio Water Development Authority to finance a utility plant expansion. This loan will be repaid from a utility surcharge, also accounted for in this fund.

Sewer Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

Fiduciary Funds (Trust and Agency Funds) – Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

Cemetery Bequest Fund (Trust Fund) – This is a nonexpendable trust fund. Amounts donated are maintained in perpetuity. Investment earnings are used for grave upkeep as specified by the donor.

Mayor's Court Fund (Agency Fund) – This fund receives court fines assessed by the Village Magistrate. These funds are distributed to the appropriate government on a monthly basis.

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

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

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

Encumbrances – The Ohio Revised Code requires the Village to reserve (encumber) appropriations when 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 and 2006 budgetary activity appears in Note 3.

VILLAGE OF SOUTH CHARLESTON, OHIO, Clark County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

Property, plant and equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

Accumulated leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS:

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. For the years ended December 31, 2007 and 2006, the Village's bank balances were \$585,137 and \$481,660, respectively. Of this amount, \$101,829 and \$103,050 was insured, the remaining \$483,308 and \$378,610, as of December 31, 2007 and 2006, respectively, was collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name per Ohio Revised Code Section 135.181.

3. BUDGETARY ACTIVITY:

Budgetary activity for the years ending December 31, 2007 and 2006 is as follows:

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 704,673	618,860	(85,813)
Special Revenue	119,458	115,391	(4,067)
Enterprise	564,500	454,931	(109,569)
Non Expendable Trust	-	2,110	2,110
Total	<u>\$ 1,388,631</u>	<u>1,191,292</u>	<u>(197,339)</u>

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 713,500	578,273	135,227
Special Revenue	288,962	138,853	150,109
Enterprise	552,500	425,717	126,783
Non Expendable Trust	-	-	-
Total	<u>\$ 1,554,962</u>	<u>1,142,843</u>	<u>412,119</u>

VILLAGE OF SOUTH CHARLESTON, OHIO, Clark County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 677,651	571,972	(105,679)
Special Revenue	145,544	198,078	52,534
Enterprise	522,515	486,202	(36,313)
Non Expendable Trust	-	6	6
Total	<u>\$ 1,345,710</u>	<u>1,256,258</u>	<u>(89,452)</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 772,000	657,168	114,832
Special Revenue	218,950	94,194	124,756
Enterprise	727,400	444,095	283,305
Non Expendable Trust	-	-	-
Total	<u>\$ 1,718,350</u>	<u>1,195,457</u>	<u>522,893</u>

Contrary to Ohio law, certain expenditure obligations were not properly encumbered.

4. PROPERTY TAX:

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Commission. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, 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.

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

5. LOCAL INCOME TAX:

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

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

VILLAGE OF SOUTH CHARLESTON, OHIO, Clark County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

6. DEBT:

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan - #1896/0979	\$ 437,303	7.59%
Ohio Water Development Authority Loan - #3450/0279	44,849	2.00%
Ohio Water Development Authority Loan - #3454/143DW	1,405,876	2.00%
Ohio Water Development Authority Loan - #3941	53,273	2.00%
Ohio Water Development Authority Loan - #3573/CA	<u>53,029</u>	2.00%
	<u>\$ 1,994,330</u>	

The Ohio Water Development Authority (OWDA) loan #1896/0979 relates to a sewer plant expansion project; loan #3450/0279 relates to water tower painting project; loan #3454/143DW relates to a new well field and water system upgrade project; loan #3941 relates to a new waste water treatment plant pump station; and loan #3573/CA relates to water meter and tank improvements. The loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Annual debt service requirements to maturity for the OWDA loans are as follows:

Year Ending 12/31	Principal	Interest	Total
2008	\$ 138,124	\$ 62,823	\$ 200,947
2009	143,791	57,247	201,038
2010	149,782	51,348	201,130
2011	156,119	45,105	201,224
2012	168,245	39,653	207,898
2013-2017	691,981	102,080	794,061
2018-2022	542,437	28,108	570,545
2023	<u>3,849</u>	<u>58</u>	<u>3,907</u>
Total	<u>\$ 1,994,328</u>	<u>\$ 386,422</u>	<u>\$ 2,380,750</u>

7. RETIREMENT SYSTEMS:

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2007 and 2006, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. For 2007 and 2006, PERS members contributed 9.5% and 9%, respectively, of their gross salaries and the Village contributed an amount equal to 13.85% and 13.7%, respectively, of participants' gross salaries. As of December 31, 2007, the Village had paid 100% of its required contribution for 2007 and 2006.

8. RISK MANAGEMENT:

Risk pool membership

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 or \$3,000,000 as noted above.

Property coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, 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 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will then reinsure

VILLAGE OF SOUTH CHARLESTON, OHIO, Clark County
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

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, 2007 and 2006 (the latest information available):

<u>Casualty & Property Coverage</u>	<u>2007</u>	<u>2006</u>
Assets	\$37,560,071	\$36,123,194
Liabilities	<u>(17,340,825)</u>	<u>(16,738,904)</u>
Retained earnings	<u>\$20,219,246</u>	<u>\$19,384,290</u>

At December 31, 2007 and 2006, respectively, casualty coverage liabilities noted above include approximately \$15.0 million and \$14.4 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, 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 \$49,000. 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 to PEP for each year of membership.

Contributions to PEP

2005	\$24,304
2006	\$26,729
2007	\$25,765

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they provide 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.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Village Commission
Village of South Charleston, Ohio
Clark County
35 South Chillicothe Street
South Charleston, Ohio 45368

We have audited the financial statements of the Village of South Charleston, Ohio (the Village), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated February 16, 2009, wherein we noted the Village prepares its financial statements using accounting practices prescribed or permitted by the Auditor of State of Ohio and that the financial statements of the Village did not present fairly, in all material respects, the combined fund cash balances or combined cash receipts and cash disbursements in accordance with the prescribed or permitted accounting practices. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the 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 to be significant deficiencies.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the accompanying schedule of findings as items 2007-001 through 2007-005.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

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 considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-001 through 2007-005 to be material weaknesses.

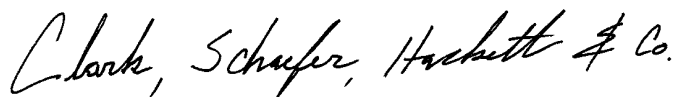
Compliance and other matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2007-006 through 2007-009.

We also noted certain additional matters that we reported to management of the Village in a separate letter dated February 16, 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.

This report is intended solely for the information and use of the Village Commission, the management of the Village and the Auditor of State of Ohio, and is not intended to be and should not be used by anyone other than these specified parties.



Springfield, Ohio
February 16, 2009

Finding Number 2007-001: Failure to Perform Bank Reconciliations

The Village Clerk did not perform accurate monthly bank reconciliations to the Village's records. The outstanding check listings were inaccurate and incomplete or not maintained for review. As a result, the Village hired an outside party subsequent to year end to reconcile its accounting records to the bank balance. The results of this reconciliation process indicated the overall ending fund balance of the Village's funds as reported within its accounting records were understated by approximately \$136,000 and \$128,500 at December 31, 2007 and 2006, respectively. However, the Village could not identify which funds or which accounts within the funds needed to be adjusted to correct the ending cash balances.

Failure to accurately reconcile bank balances to the cash journal resulted in ongoing and undetected errors in the accounting system. The cash journal should be reconciled to the bank statements with an explanation of reconciling items on a monthly basis. The Village Commission should review monthly bank reconciliations and sign them to evidence their review to assist with the verification of accountability over Village assets.

Management response:

The Village intends to complete monthly bank reconciliations, with an explanation of any and all reconciling items and provide them to the Village Commission for their review and approval. This review process will assist in the monitoring and accountability of the Village's assets.

Finding Number 2007-002: Segregation of Duties

Adequate segregations of duties are important to adequately protect the assets of the Village and ensure accurate financial reporting. During the years audited, the Village Clerk performed virtually all financial functions and duties with little to no monitoring by other individuals. Without proper segregation of duties or appropriate monitoring procedures in place, the risk increases that errors or fraud could occur and not be detected within a timely basis.

While it is recognized there will be some inherent limitations in the ability of the Village to adequately segregate all duties due to limited number of staff and budgetary constraints, the Village should institute appropriate monitoring controls within each accounting function which would provide assurance that information is being properly collected, recorded and reported. Such controls could include reviewing actual receipts compared with anticipated receipts, reviewing or performing monthly reconciliation procedures, reviewing and approving disbursements made during the period, and reviewing utility billing reports, including billing reports, receipt reports and outstanding accounts reports. Such procedures add an additional level of assurance that the financial activity of the Village is being processed in an accurate and complete manner.

Management response:

The Village intends to institute the necessary reviews and monitoring controls needed when one individual performs all the duties within an accounting cycle.

Finding Number 2007-003: Village Commission Fiduciary Responsibility and Maintenance of Financial Records

As the governing body of the Village, the Commission has a number of responsibilities, including the ultimate responsibility for the Village's continued financial and operational stability. Each Commission member is elected by the public and entrusted with a fiduciary responsibility to ensure that the Village serves its purpose. The proper expenditure of public funds is a responsibility that should not be neglected. We encourage all Commission members to participate actively in Commission meetings and to continuously monitor the Village's financial operations. Active participation includes continuous monitoring of the Village's expenditures and revenues. During this review the Village Commission should be looking for unusual items and taking prompt action, as necessary. The Village Commission also needs to reevaluate the current internal control system in place and recommend changes as necessary.

For the years ended 2007 and 2006, the Village's accounting records were maintained in a manner where information was missing and complete. The Village's fiscal operations were not monitored appropriately, which allowed the financial records to remain incomplete and inaccurate. The lack of monitoring financial activities ultimately results in Commission's inability to control resources and make sound financial decisions.

The posting of financial activity should be performed accurately and in a timely fashion, and bank reconciliations should be performed monthly, including reconciliations between bank balances and book balances. The Village Commission should review the financial reports on a monthly basis.

To assist with determining that accurate financial information is provided, the Commission should develop and implement policies and monitor control procedures for assurance as to the timeliness and reliability of financial information within the Village.

Management response:

The Village has implemented many new policies and is constantly striving to improve the Village's record retention and controls.

Finding Number 2007-004: Budgetary Information

There was no indication in the minutes of the Village Commission indicating the Commission's approval of appropriation resolutions or amendments during either year being audited nor could the budgetary documents containing such approval be provided.

Proper adoption and monitoring of the Village's operating budget is a significant monitoring control available to the Commission to ensure public funds are being spent appropriately and in accordance with the Commission's plans for the Village. Failure to appropriately develop, implement and monitor the budget reduces the effectiveness of this control and could result in funds being spent in a manner which is inconsistent with those of the governing board.

The Village should ensure all budgetary documents are properly adopted in an open meeting, recorded in the minutes of the Commission, and implemented as the overall spending control of the Village within the accounting system. Monthly budget to actual reports should be provided to the members of the Commission which would enable Commission members to determine if resources are being allocated in the manner deemed most appropriate for the Village.

Management response:

The Village will develop and adopt future budgets within the requirements of State Law and will ensure those amounts are entered into the accounting system to monitor spending.

Finding Number 2007-005: Utility Billing Adjustments

During the review of the utility billings by the Village it was noted there were several adjustments made to the original billings by the clerk, however, there was no supporting documentation maintained to identify the reason for these adjustments. In addition, there does not appear to be a standardized policy regarding when adjustments should be made and what approval must be gained prior to making such adjustments.

Credits or adjustments to the utility billing system should be continuously monitored to ensure all credits or adjustments are only made for the appropriate purpose and that all such adjustments are properly approved by a party independent of the billing process.

Management response:

Management has been made aware of this issue and will implement policies and procedures to specify when adjustments to utility billings are appropriate as well as the approval process for such adjustments.

Finding Number 2007-006: Public Property and Records

Ohio Revised Code Section 149.351(A) requires that all records that are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by the Ohio Rev. Code Sections 149.38 through 149.42. Village employees were unable to locate various documents requested throughout the audit testing and analysis, including four of the forty income tax returns selected for testing, certain billing history/transaction reports and approved budgetary documentation.

The Village should ensure all records are adequately safeguarded. In addition, Village Commission should establish a records removal policy. This will assist with ensuring that Village records are not lost or destroyed.

Management response:

The Village is aware of the above issue and is currently reviewing the procedures to prevent this condition from occurring in the future.

Finding Number 2007-007: Prior Certification of Expenditures

Ohio Revised Code Section 5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The section also provides the following exception to this requirement:

If no certificate is issued at the time the contract or order is presented for payment, the taxing authority may authorize the payment provided there are appropriated sufficient sums for the purpose of such contracts and is in the treasury or process of collection to the credit of an appropriate fund free from previous encumbrance provided such action is taken within thirty days of the contract date, and the amount is less than \$3,000. This is referred to as a "then and now certificate".

Numerous expenditures tested for 2006 and 2007 were initiated without obtaining the prior certification of the Clerk. None of these expenditures met the exception provided for in section 5705.41(D) (i.e., then and now certificate). Procedures should be adopted by the Village that would assure that commitments are properly encumbered prior to the expenditure of Village funds.

Management response:

The Village has implemented many new policies and does a much better job monitoring the certification of expenditures.

Finding Number 2007-008: Negative Ending Fund Balance

Ohio Revised Code Section 149.351(A) requires, in part, that all money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. As identified in the accompanying financial statements, the general fund reported a negative ending fund cash balance at December 31, 2006. While the issues surrounding the reconciliation process of the Village makes it difficult to determine if the ending cash fund balance of the general fund was actually negative, it should have served as an indicator to the management of the Village that deficiencies existed within its accounting system.

The Village should monitor the ending individual fund balances on an on-going basis to ensure negative cash balances from one fund are not being covered by money from another fund.

Management response:

The Village will institute the procedures noted above for the reconciliation process which will provide the necessary information to monitor the ending fund balances on an on-going basis.

Finding Number 2007-009: Amended Certificate of Estimated Resources

Ohio Rev. Code Section 5705.36 allows subdivisions to request reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be less than the amount in the official certificate of estimated resources. A reduced amended certificate must be obtained if the amount of deficiency will reduce available resources below the current level of appropriation.

Based on the information available during the audit, the Village should have reduced its estimated resources for several funds during 2007 and 2006 as the amount of actual receipts plus the beginning cash fund balance of those funds could not support the level of appropriations indicated by the Village's financial system.

The Village should monitor the cash receipts on an on-going basis to determine if the estimated resources, and subsequently appropriations level, need to be adjusted.

Management response:

The Village will monitor cash receipts during the year and make any necessary adjustments to the estimated resources and adopted budget amounts based on the actual cash receipts received.

Finding 2005-001: Utility Revenues

For the year ended December 31, 2004, the Village computer contained a utility software program which had not been accurate and the reports generated from the system were not saved. In addition, there was no master file showing payments by individuals or businesses or a master listing of utility customers (i.e., the client should be able to provide a master listing of the accounts at any point in time along with any additions or deletions taking place during the year, by date). Also, there was no other subsidiary record maintained to track the timing and extent of collections.

Status: Corrected

Finding 2005-002: Bank Reconciliations

The Village was unable to reconcile the general depository account at December 31, 2004.

Status: Not corrected - while the Village was able to reconcile the general depository account at December 31, 2005, as noted in Finding 2007-001 above, it failed to reconcile the depository account at any point during 2006 or 2007.



Mary Taylor, CPA
Auditor of State

VILLAGE OF SOUTH CHARLESTON

CLARK 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
APRIL 7, 2009**