



Dave Yost • Auditor of State

VILLAGE OF CLARINGTON
MONROE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Clarington, Monroe County, Ohio (the Village), as of and for the years ended December 31, 2013 and 2012.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2013 and 2012, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Clarington, Monroe County, Ohio, as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

December 1, 2014

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Special Revenue	Permanent	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$11,663			\$11,663
Intergovernmental	59,435	\$19,712		79,147
Charges for Services	75	7,072		7,147
Fines, Licenses and Permits	10			10
Earnings on Investments	116	256		372
Miscellaneous	230,543	100		230,643
<i>Total Cash Receipts</i>	<u>301,842</u>	<u>27,140</u>	<u>\$0</u>	<u>328,982</u>
Cash Disbursements				
Current:				
Public Health Services	1,690	14,478		16,168
Basic Utility Services	6,768	2,981		9,749
Miscellaneous	438			438
General Government	66,540	16,367		82,907
Debt Service:				
Principal Retirement		2,393		2,393
<i>Total Cash Disbursements</i>	<u>75,436</u>	<u>36,219</u>	<u>0</u>	<u>111,655</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>226,406</u>	<u>(9,079)</u>	<u>0</u>	<u>217,327</u>
Other Financing Receipts (Disbursements)				
Transfers In		10,000		10,000
Transfers Out	(10,000)			(10,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(10,000)</u>	<u>10,000</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	216,406	921	0	217,327
<i>Fund Cash Balances, January 1</i>	<u>65,254</u>	<u>11,298</u>	<u>90,059</u>	<u>166,611</u>
Fund Cash Balances, December 31				
Nonspendable			90,059	90,059
Restricted		11,195		11,195
Committed		1,024		1,024
Unassigned (Deficit)	281,660			281,660
<i>Fund Cash Balances, December 31</i>	<u>\$281,660</u>	<u>\$12,219</u>	<u>\$90,059</u>	<u>\$383,938</u>

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

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES (CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Enterprise
Operating Cash Receipts	
Charges for Services	\$258,929
Miscellaneous	224
	259,153
<i>Total Operating Cash Receipts</i>	<i>259,153</i>
Operating Cash Disbursements	
Personal Services	54,643
Employee Fringe Benefits	10,949
Contractual Services	2,146
Supplies and Materials	11,403
Basic Utility Services	26,157
Employee Reimbursement	162
Repairs and Maintenance	12,667
Communication, Printing, and Advertising	5,817
Other	2,522
	126,466
<i>Total Operating Cash Disbursements</i>	<i>126,466</i>
<i>Operating Income</i>	<i>132,687</i>
Non-Operating (Disbursements)	
Capital Outlay	(200)
Principal Retirement	(63,869)
Interest and Other Fiscal Charges	(18,957)
	(83,026)
<i>Total Non-Operating (Disbursements)</i>	<i>(83,026)</i>
<i>Net Change in Fund Cash Balances</i>	<i>49,661</i>
<i>Fund Cash Balances, January 1</i>	<i>297,820</i>
<i>Fund Cash Balances, December 31</i>	<i>\$347,481</i>

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

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Permanent	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$12,080			\$12,080
Intergovernmental	18,020	\$20,159		38,179
Charges for Services	75	9,195		9,270
Fines, Licenses and Permits	15			15
Earnings on Investments	119	473		592
Miscellaneous	321			321
<i>Total Cash Receipts</i>	<u>30,630</u>	<u>29,827</u>	<u>\$0</u>	<u>60,457</u>
Cash Disbursements				
Current:				
Public Health Services	1,658	12,580		14,238
Basic Utility Services	6,822	4,010		10,832
Miscellaneous	429			429
General Government	57,037	15,584		72,621
Debt Service:				
Principal Retirement		2,393		2,393
<i>Total Cash Disbursements</i>	<u>65,946</u>	<u>34,567</u>	<u>0</u>	<u>100,513</u>
<i>Net Change in Fund Cash Balances</i>	(35,316)	(4,740)	0	(40,056)
<i>Fund Cash Balances, January 1</i>	<u>100,570</u>	<u>16,038</u>	<u>90,059</u>	<u>206,667</u>
Fund Cash Balances, December 31				
Nonspendable			90,059	90,059
Restricted		10,174		10,174
Committed		1,124		1,124
Unassigned (Deficit)	65,254			65,254
<i>Fund Cash Balances, December 31</i>	<u>\$65,254</u>	<u>\$11,298</u>	<u>\$90,059</u>	<u>\$166,611</u>

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

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES (CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Enterprise
Operating Cash Receipts	
Intergovernmental	\$406
Charges for Services	263,234
Miscellaneous	57
<i>Total Operating Cash Receipts</i>	263,697
Operating Cash Disbursements	
Personal Services	50,840
Employee Fringe Benefits	10,370
Contractual Services	2,845
Supplies and Materials	10,302
Basic Utility Services	24,748
Employee Reimbursement	200
Repairs and Maintenance	23,485
Communication, Printing, and Advertising	6,305
Other	2,213
<i>Total Operating Cash Disbursements</i>	131,308
<i>Operating Income</i>	132,389
Non-Operating (Disbursements)	
Principal Retirement	(59,941)
Interest and Other Fiscal Charges	(22,763)
<i>Total Non-Operating (Disbursements)</i>	(82,704)
<i>Net Change in Fund Cash Balances</i>	49,685
<i>Fund Cash Balances, January 1</i>	248,135
<i>Fund Cash Balances, December 31</i>	\$297,820

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

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Clarington, Monroe County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities and general government operations. The Village contracts with the Clarington Volunteer Fire Department to provide fire protection services and the Monroe County Sheriff's department to provide security of persons and property.

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

B. Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit.

C. Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values U.S. Treasury Notes at cost.

D. Fund Accounting

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

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

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

3. Permanent Fund

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

Cemetery Endowment Fund - This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Village's cemetery.

4. Enterprise Funds

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

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

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. 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 approve estimated resources.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

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

A summary of 2013 and 2012 budgetary activity appears in Note 3.

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

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

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balance (Continued)

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant, and Equipment

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

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Equity in Pooled Deposits and Investments

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

	2013	2012
Demand deposits	\$614,870	\$347,927
Certificates of deposit	95,561	95,516
Other time deposits (savings and NOW accounts)	19,988	19,988
Total deposits	730,419	463,431
U.S. Treasury Notes	1,000	1,000
Total investments	1,000	1,000
Total deposits and investments	\$731,419	\$464,431

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

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

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2013 and 2012, follows:

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$301,842	\$301,842
Special Revenue	0	37,140	37,140
Enterprise	0	259,153	259,153
Total	\$0	\$598,135	\$598,135

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$85,000	\$85,436	(\$436)
Special Revenue	47,500	36,219	11,281
Enterprise	318,000	209,492	108,508
Permanent	1,000	0	1,000
Total	\$451,500	\$331,147	\$120,353

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$30,630	\$30,630
Special Revenue	0	29,827	29,827
Enterprise	0	263,697	263,697
Total	\$0	\$324,154	\$324,154

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$65,946	(\$65,946)
Special Revenue	0	34,567	(34,567)
Enterprise	0	214,012	(214,012)
Total	\$0	\$314,525	(\$314,525)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$436 for the year ended December 31, 2013 and in all funds by a total of \$314,525 for the year ended December 31, 2012. This is due to the Village Council not passing a permanent appropriation measure in 2012 contrary to Ohio Rev. Code § 5705.38(A).

Also, contrary to Ohio law, appropriations exceeded estimated resources in the General Fund by \$19,746, Street Construction, Maintenance and Repair Fund by \$14,731, Cemetery Fund by \$23,876, Sewer Fund by \$77,068 and Sewer Debt Service Fund by \$65,000 for the year ended December 31, 2013.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

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.

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

5. Debt

Debt outstanding at December 31, 2013, was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loans	\$271,672	0% to 2%
Ohio Water Development Authority Loans	217,443	6.16% to 7.45%
Total	\$489,115	

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

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

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

Year ending December 31:	OPWC Loan	OWDA Loan
2014	\$9,596	\$32,378
2015	19,193	64,756
2016	19,193	64,756
2017	19,193	64,756
2018	19,193	32,379
2019-2023	95,964	
2024-2028	65,117	
2029-2031	30,844	
Total	\$278,293	\$259,025

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

6. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. For 2013 and 2012, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2013.

Effective July 1, 1991, all employees not otherwise covered by the Ohio Public Employees Retirement System have an option to choose Social Security or the Ohio Public Employees Retirement System. The Village's liability is 6.2 percent of wages.

7. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

8. Contingent Liabilities

A. Grants

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

B. Oil/Gas Lease

The Village entered into a "Paid-Up" Oil and Gas Lease. The lease is for 35.75 acres of property owned by the Village and is effective February 13, 2013, for a five year period with Eclipse Resources I, LLP. The lease calls for payments to the Village, in addition to the bonus, royalties in the amount of 20 percent of the net proceeds for all oil, gas and/or hydrocarbons produced and saved from the land. As of the date of the financial statements, the value of any potential royalties cannot be determined.

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Dave Yost • Auditor of State

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

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

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Clarington, Monroe County, Ohio (the Village), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated December 1, 2014, wherein we noted the Village followed financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03 permit.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-005 and 2013-006 described in the accompanying Schedule of Findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2013-001 through 2013-004.

Village's Response to Findings

The Village's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

December 1, 2014

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2013-001

Noncompliance

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

The Village Council passed temporary appropriations for 2012 at the fund level but failed to pass permanent appropriations. Therefore, no appropriation resolution was filed with the Monroe County Auditor's Office.

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

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

FINDING NUMBER 2013-002

Noncompliance

Ohio Rev. Code § 5705.39 states, in part, that the total appropriation from each fund should not exceed the total estimated revenue available for expenditure therefrom, as certified by the budget commission. No appropriation measure is to become effective until the County Auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed the total official estimate or amended official estimate.

As of December 31, 2013, appropriations exceeded estimated resources in the following funds:

Fund	Estimated Resources	Appropriations	Variance
General	\$65,254	\$85,000	(\$19,746)
Street Construction, Maintenance and Repair	5,269	20,000	(14,731)
Cemetery	1,124	25,000	(23,876)
Sewer	22,932	100,000	(77,068)
Sewer Debt	0	65,000	(65,000)

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2013-002 (Continued)

Noncompliance – Ohio Rev. Code § 5705.39 (Continued)

We recommend the Village monitor appropriations and estimated resources and file amendments as needed with the County Auditor to ensure that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. This will help to reduce the risk of disbursements exceeding actual revenues available and will add a measure of control over the Village's budgetary process.

Officials' Response: We will monitor the appropriations and estimated resources and file the amendments accordingly.

FINDING NUMBER 2013-003

Noncompliance

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

The Village did not pass permanent appropriations for 2012. Therefore, total expenditures for all funds exceeded appropriations by \$314,525 at December 31, 2012.

We also noted at December 31, 2013, the General Fund expenditures of \$85,436 exceeded appropriations of \$85,000 by \$436.

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

Officials' Response: We will document the passing of the permanent appropriations. They are passed yearly.

FINDING NUMBER 2013-004

Noncompliance

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further contracts and orders for expenditures lacking prior certification shall be null and void.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2013-004 (Continued)

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

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

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

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

Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

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

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

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

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2013-004 (Continued)

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

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

Officials' Response: We will begin to use the purchase order system, when we return to the Uniform Accounting Network (UAN) system.

FINDING NUMBER 2013-005

Material Weakness

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

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

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

Officials' Response: We will maintain proper ledgers once we return to the UAN system. Quickbooks doesn't have proper reports.

FINDING NUMBER 2013-006

Material Weakness

All local public offices may maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required.

**VILLAGE OF CLARINGTON
MONROE COUNTY**
**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2013-006 (Continued)

Material Weakness (Continued)

All local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

1. Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions to be recorded on this ledger.
3. Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, uncommitted balance of appropriations and any other information required may be entered in the appropriate columns.

The Village did not maintain a cash journal, receipt ledger, or appropriation ledger. Only a general ledger, deposit detail, and check detail report were maintained for both 2013 and 2012.

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

We recommend the Village Clerk/Treasurer maintain a cash journal, receipts ledger, and appropriation ledger in accordance with the available authoritative resources and maintain the ledgers at the fund, function, object level of reporting. The receipt ledger and the appropriation ledger should be balanced with the cash journal on a monthly basis and used to prepare the year-end annual financial reports. The annual financial report should be presented using the proper receipt and expenditure classifications according to the Village Officer's Handbook (March 2014).

Officials' Response: We will maintain proper ledgers once we return to the UAN system. Quickbooks doesn't have proper reports.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013 AND 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Ohio Rev. Code § 5705.10(D) – receipts posted to incorrect funds.	Yes	N/A.
2011-02	Ohio Rev. Code § 5705.38(A) – no permanent appropriation measure passed.	No	Not Corrected; Repeated as Finding No. 2013-001.
2011-03	Ohio Rev. Code § 5705.41(B) – expenditures exceeded appropriations.	No	Not Corrected; Repeated as Finding No. 2013-003.
2011-04	Ohio Rev. Code § 5705.41(D)(1) – Village did not utilize the encumbrance method of accounting.	No	Not Corrected; Repeated as Finding No. 2013-004.
2011-05	Material Weakness – Estimated receipts and appropriations not integrated into the accounting system.	No	Not Corrected; Repeated as Finding No. 2013-005.
2011-06	Material Weakness – No receipts or appropriation ledgers and no budgetary integration into the accounting system.	No	Not Corrected; Repeated as Finding No. 2013-006.



Dave Yost • Auditor of State

VILLAGE OF CLARINGTON

MONROE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 18, 2014**