



Dave Yost • Auditor of State

VILLAGE OF ATHALIA
LAWRENCE COUNTY

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Dave Yost • Auditor of State

Village of Athalia
Lawrence County
14407 State Route 7
Proctorville, Ohio 45669

To the Village Council:

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 16, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Athalia
Lawrence County
14407 State Route 7
Proctorville, Ohio 45669

To the Village Council:

We have audited the accompanying financial statements of the Village of Athalia, Lawrence County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair an auditor's independence. However, Government Auditing Standards permits the Auditor of State to audit and opine on this entity because Ohio Rev. Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Rev. Code § 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the office of budget and management or through the county auditor of the county in which the local public office is located. We believe our audit provides a reasonable basis for our opinion.

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

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

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010 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, 2011 and 2010, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Athalia, Lawrence County, Ohio, as of December 31, 2011 and 2010, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village did not use the encumbrance method of accounting as required by Ohio Revised Code Chapter 5705 for the years ended December 31, 2011 and 2010. The basis of accounting prescribed by the Auditor of State requires the Village to report outstanding encumbrances at year end as budgetary expenditures. Accordingly, budgetary expenditures in Note 4 do not include encumbrances. It was not practical for us to determine the amount of unrecorded encumbrances for the years ended December 31, 2011 and 2010.

As described in Note 2, during 2010 the Village of Athalia adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As discussed in Note 9 to the financial statements, the Village had a General Fund deficit cash balance as of December 31, 2011 and December 31, 2010, which indicated the Village was having financial difficulty. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2012, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Dave Yost
Auditor of State

August 16, 2012

**VILLAGE OF ATHALIA
LAWRENCE COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$3,734		\$3,734
Intergovernmental	15,597	\$14,341	29,938
Licenses, Permits and Fees	1,330		1,330
Miscellaneous	666		666
<i>Total Cash Receipts</i>	21,327	14,341	35,668
Cash Disbursements			
Current:			
General Government	22,596		22,596
<i>Total Cash Disbursements</i>	22,596	0	22,596
<i>Excess of Receipts Over (Under) Disbursements</i>	(1,269)	14,341	13,072
<i>Fund Cash Balances, January 1</i>	(3,623)	49,427	45,804
Fund Cash Balances, December 31			
Restricted		63,768	63,768
Unassigned (Deficit)	(4,892)		(4,892)
<i>Fund Cash Balances, December 31</i>	(\$4,892)	\$63,768	\$58,876

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

**VILLAGE OF ATHALIA
LAWRENCE COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$3,285		\$3,285
Intergovernmental	15,360	\$16,657	32,017
Earnings on Investments	4		4
Miscellaneous	364		364
<i>Total Cash Receipts</i>	<u>19,013</u>	<u>16,657</u>	<u>35,670</u>
Cash Disbursements			
Current:			
General Government	23,935		23,935
Public Works		1,500	1,500
<i>Total Cash Disbursements</i>	<u>23,935</u>	<u>1,500</u>	<u>25,435</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(4,922)</u>	<u>15,157</u>	<u>10,235</u>
<i>Fund Cash Balances, January 1</i>	<u>1,299</u>	<u>34,270</u>	<u>35,569</u>
Fund Cash Balances, December 31			
Restricted		49,427	49,427
Unassigned (Deficit)	(3,623)		(3,623)
<i>Fund Cash Balances, December 31</i>	<u><u>(\$3,623)</u></u>	<u><u>\$49,427</u></u>	<u><u>\$45,804</u></u>

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

**VILLAGE OF ATHALIA
LAWRENCE COUNTY**

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

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Athalia, Lawrence County, (the Village) as a body corporate and politic. A publicly-elected six-member Village Council directs the Village. The Village provides general government services, park operations, and maintenance of streets. In addition, the Village contracts with the Rome Township Volunteer Fire Department for fire protection services.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when an expenditure is made (i.e., when a check is issued).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash

The Village has one demand deposit account.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

State Highway Fund - This fund receives gasoline tax and motor vehicle license tax money for constructing, maintaining, and repairing Village state highway roads.

VILLAGE OF ATHALIA
LAWRENCE COUNTY

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

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

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

F. Fund Balance

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.

VILLAGE OF ATHALIA
LAWRENCE COUNTY

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

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (Continued)

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.

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.

2. Change in Accounting Principle

For fiscal year 2010, the Village implemented Governmental Accounting Standards Board (GASB) Statement No. 54. Implementing GASB Statement No. 54 had no effect on fund balances previously reported.

3. Equity in Pooled Cash

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

	2011	2010
Demand deposits	<u>\$58,876</u>	<u>\$45,804</u>

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation.

**VILLAGE OF ATHALIA
LAWRENCE COUNTY**

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

4. Budgetary Activity

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

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$21,000	\$21,327	\$327
Special Revenue	17,300	14,341	(2,959)
Total	\$38,300	\$35,668	(\$2,632)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$27,530	\$22,596	\$4,934
Special Revenue	2,800	0	2,800
Total	\$30,330	\$22,596	\$7,734

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$21,000	\$19,013	(\$1,987)
Special Revenue	15,700	16,657	957
Total	\$36,700	\$35,670	(\$1,030)

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$26,700	\$23,935	\$2,765
Special Revenue	24,500	1,500	23,000
Total	\$51,200	\$25,435	\$25,765

Contrary to Ohio law, budgeted revenues exceeded actual receipts in the Street Construction Fund and the State Highway Fund by \$2,727 and \$232 respectively for 2011. For 2010, budgeted revenues exceeded actual receipts in the General Fund by \$1,987.

Contrary to Ohio law, appropriations exceeded actual resources at December 31, 2011 in the General Fund by \$4,904.

Contrary to Ohio law, appropriations exceeded actual resources at December 31, 2010 in the General Fund by \$6,387 and the State Highway Fund by \$2,426.

Contrary to Ohio law, at December 31, 2011 appropriations exceeded estimated resources in the General Fund by \$10,353.

**VILLAGE OF ATHALIA
LAWRENCE COUNTY**

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

4. Budgetary Activity (Continued)

Contrary to Ohio law, at December 31, 2010 appropriations exceeded estimated resources in the General Fund by \$4,681 and the State Highway fund by \$2,260.

Contrary to Ohio law, the Village did not use the encumbrance method of accounting.

5. Property Tax

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

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

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

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

6. Retirement System

Some of the Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes these plans benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For both 2011 and 2010, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

7. Risk Management

Risk Pool Membership

Prior to 2009, the Village belonged to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

**VILLAGE OF ATHALIA
LAWRENCE COUNTY**

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

7. Risk Management (Continued)

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management (“OPRM”), are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss, except OPRM retains 40% (17.5% through October 31, 2010 and 15% through October 31, 2009) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 761 and 725 members as of December 31, 2010 and 2009 respectively. The Village participates in this coverage.

The Plan formed the Ohio Plan Healthcare Consortium (“OPHC”), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member’s healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 65 and 60 members as of December 31, 2010 and 2009 respectively. The Village does not participate in this coverage.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member’s covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2010 and 2009 (the latest information available), and include amounts for both OPRM and OPHC:

	2010		2009	
	<u>OPRM</u>	<u>OPHC</u>	<u>OPRM</u>	<u>OPHC</u>
Assets	\$12,036,541	\$1,355,131	\$11,176,186	\$1,358,802
Liabilities	(4,845,056)	(1,055,096)	(4,852,485)	(1,253,617)
Members’ Equity	<u>\$7,191,485</u>	<u>\$300,035</u>	<u>\$6,323,701</u>	<u>\$105,185</u>

You can read the complete audited financial statements for OPRM and OPHC at the Plan’s website, www.ohioplan.org.

**VILLAGE OF ATHALIA
LAWRENCE COUNTY**

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

8. Contingent Liabilities

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.

9. Outstanding Balances and Financial Condition

As of December 31, 2011, the Village had a General Fund balance of (\$4,892). As of June 13, 2012, the Village had outstanding Auditor of State of Ohio fees in the amount of \$9,576 for audit services which are past due. The Village also contracts with the Rome Township Volunteer Fire Department for fire protection services which the Village has a difficult time keeping payments up to date. Recommendations have been made for the Village to consider how to increase revenues, reduce expenditures, consider running levies to pay for street lighting and fire contracts, and contract vendors to resolve balances owed.

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

Village of Athalia
Lawrence County
14407 State Route 7
Proctorville, Ohio 45669

To the Village Council:

We have audited the financial statements of the Village of Athalia, Lawrence County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated August 16, 2012, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and adopted the provisions of Governmental Accounting Standards Board Statement No. 54. We noted the Village did not use the encumbrance method of accounting as required by Ohio Revised Code Chapter 5705. We also noted the Village is experiencing financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider Finding 2011-01 described in the accompanying Schedule of Findings to be a material weakness.

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Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2011-01 through 2011-04.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated August 16, 2012.

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

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



Dave Yost
Auditor of State

August 16, 2012

VILLAGE OF ATHALIA
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010

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

FINDING NUMBER 2011-01

Noncompliance Citation/Material Weakness

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

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

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

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

2. Blanket Certificate – 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.

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

The Village did not use the encumbrance method of accounting as required by Ohio Revised Code Chapter 5705 for the years ended December 31, 2011 and 2010. The basis of accounting prescribed by the Auditor of State requires the Village to report outstanding encumbrances at year end as budgetary expenditures.

VILLAGE OF ATHALIA
LAWRENCE COUNTY

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

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

FINDING NUMBER 2011-01 (Continued)

Noncompliance Citation/Material Weakness – Ohio Rev. Code Section 5705.41(D)(1) (Continued)

The Village Fiscal Officer did not certify the availability of funds prior to purchase commitments being made for 100% of the expenditures in 2010 and in 2011. The Village Fiscal Officer prepared a purchase order; however, the Village Fiscal Officer did not sign and date the purchase order to indicate the certification was made prior to the time the disbursement check was prepared.

The Village Council did not have sufficient internal controls in place to ensure the certification of the availability of funds. Failure to certify the availability of funds properly can result in overspending funds and negative cash fund balances.

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

We recommend the Village officials and employees obtain the Village Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certificate language of Section 5705.41 (D) requires to authorize disbursements. The Village Fiscal Officer should sign the certification at the time the Village incurs the commitment, and only when the requirements of Section 5705.41 (D) are satisfied. The Village Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

Officials' Response:

The Village of Athalia is attempting to correct these problems before the next audit.

FINDING NUMBER 2011-02

Noncompliance Citation

Ohio Admin. Code Section 117-2-02(C) includes systems and documents that may be used to effectively maintain the accounting and budgetary records of the local public office and indicates all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances and appropriations.

Ohio Admin. Code Section 117-2-02(D) discussed accounting records all public offices should maintain. These records include the following:

VILLAGE OF ATHALIA
LAWRENCE COUNTY

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

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

FINDING NUMBER 2011-02 (Continued)

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

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 can 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, and any other information required may be entered in the appropriate columns.

Budgeted and actual receipts and expenditures for each account code should be monitored throughout the year. Financial reports presented to Village Council should include budget and actual activity. Expense ledgers should be maintained for all line items included within the appropriation measure.

In 2010 and 2011, the Village Fiscal Officer did not record budgeted receipts on the individual receipt ledgers and did not record appropriations on the individual appropriation ledgers. Budget and actual data was not included on the monthly financial reports presented to Village Council. This did not allow for proper monitoring of budgeted and actual revenues and expenditures by the Village Fiscal Officer or Village Council. Failure to properly monitor financial activity results in the loss of the ability to control the budgetary cycle.

We recommend the Village Fiscal Officer record budgeted receipts and appropriations for each account code on the individual ledgers. Expense ledgers should be maintained according to line items within the appropriation measure. We further recommend budget and actual revenues and expenditures be monitored throughout the year by the Village Fiscal Officer and by Village Council.

Official's Response:

The Village of Athalia is attempting to correct these problems before the next audit.

VILLAGE OF ATHALIA
LAWRENCE COUNTY

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

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

FINDING NUMBER 2011-03

Noncompliance Citation

Ohio Rev. Code Section 5705.36(A)(2) states that upon a determination by the Fiscal Officer of a subdivision that the revenue to be collected by the subdivision will be greater or less than the amount included in an official certificate, the fiscal officer may certify the amount of the deficiency or excess to the commission, and if the commission determines that the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the deficiency or excess.

Ohio Rev. Code Section 5705.36(A)(4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

Additionally, Ohio Rev. Code Section 5705.39 states, in part, the total appropriations from each fund shall not exceed the total of the estimated resources available for expenditures there from as certified by the budget commission or in case of appeal, by the board of tax appeals.

The actual amounts available for appropriations were less than the amounts estimated in the official certificate and the current level of appropriations in the following funds:

Fund	Estimated Resources	Available Resource	Variance	Appropriations
2010 General	\$22,019	\$20,313	\$(1,706)	\$26,700
2010 State Highway	\$3,240	\$3,074	\$(166)	\$5,500
2011 General	\$17,177	\$17,705	\$528	\$27,530
2011 State Highway	\$3,090	\$2,642	\$(448)	\$2,800

The Village Fiscal Officer should have requested an amended certificate of estimated resources from the commission which would have reduced the estimated resources to the level of the actual resources available for appropriations. Appropriations in these funds should have also been reduced to the level of the actual resources available for appropriations.

We recommend the Village Fiscal Officer monitor estimated and actual resources. When it is apparent that actual receipts will fall short of budgetary estimates and appropriations are greater than estimated resources, the Village Fiscal Officer should obtain a reduced amended certificate from the County Budget Commission. We further recommend the Village Council make corresponding reductions in appropriations.

Official's Response:

The Village of Athalia is attempting to correct these problems before the next audit.

VILLAGE OF ATHALIA
LAWRENCE COUNTY

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

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

FINDING NUMBER 2011-04

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states that 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.

The General Fund balance was \$(3,623) at December 31, 2010 and \$(4,892) at December 31, 2011.

A budgetary cycle should be in place for all governments. The budgetary process is a plan to coordinate expenditures and resources. The State Legislature has adopted laws to control expenditures using tax budgets and appropriations. The Auditor of State believes budgeting, properly used, provides the most important monitoring control a government has. It is impossible to incur a cash deficit if a government complies with the budgetary law. Additionally, the budget is an instrument of public policy. A governing board expresses its desire for using a government's limited resources through its appropriations.

We recommend the Village Fiscal Officer review the Ohio Compliance Supplement for budgetary requirements to implement a budgetary cycle for the Village. We further recommend the Village Council monitor spending to ensure deficit balances do not occur.

Official's Response:

The Village of Athalia is attempting to correct these problems before the next audit.

**VILLAGE OF ATHALIA
LAWRENCE COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Ohio Rev. Code Section 5705.36 and 5705.39 – Appropriations exceeded estimated resources and failure to obtain an Amended Certificate.	No	Partially Corrected. See Finding 2011-03.
2009-002	Ohio Rev. Code Section 5705.41(B) – Expenditures exceeded Appropriations	Yes	Fully Corrected.
2009-003	Ohio Rev. Code Section 5705.41(D) – Valid purchase orders not utilized resulting in funds not being properly encumbered	No	Not Corrected. See Finding 2011-01.
2009-004	Ohio Admin. Code Section 117-2-02 – Recording budgeted receipts and appropriations.	No	Not Corrected. See Finding 2011-02.



Dave Yost • Auditor of State

VILLAGE OF ATHALIA

LAWRENCE 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
AUGUST 30, 2012