



Dave Yost • Auditor of State



VILLAGE OF DONNELSVILLE  
CLARK COUNTY

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# Dave Yost • Auditor of State

Village of Donnelsville  
Clark County  
15 South Hampton Street, P.O. Box 36  
Donnelsville, Ohio 45319

To the Mayor and the 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

April 25, 2011

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Donnelsville  
Clark County  
15 South Hampton Street, P.O. Box 36  
Donnelsville, Ohio 45319

To the Mayor and the Council:

We have audited the accompanying financial statements of Village of Donnelsville, Clark County, (the Village) as of and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. 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.

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, 2010 and 2009 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, 2010 and 2009, or its changes in financial position or cash flows, where applicable, 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 and reserves for encumbrances of Village of Donnelsville, Clark County, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2011, 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

April 25, 2011



**VILLAGE OF DONNELSVILLE  
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, 2010**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Local Taxes	\$35,820		\$35,820
Intergovernmental	12,203	\$17,893	30,096
Charges for Services	3,168		3,168
Fines, Licenses and Permits	7,019		7,019
Earnings on Investments	608		608
Total Cash Receipts	<u>58,818</u>	<u>17,893</u>	<u>76,711</u>
<b>Cash Disbursements:</b>			
<b>Current:</b>			
Security of Persons and Property	17,607		17,607
Utilities		1,700	1,700
Transportation		6,303	6,303
General Government	22,942		22,942
Total Cash Disbursements	<u>40,549</u>	<u>8,003</u>	<u>48,552</u>
Total Receipts Over Disbursements	<u>18,269</u>	<u>9,890</u>	<u>28,159</u>
Fund Cash Balances, January 1	<u>108,996</u>	<u>62,709</u>	<u>171,705</u>
Fund Cash Balances, December 31	<u>\$127,265</u>	<u>\$72,599</u>	<u>\$199,864</u>
Reserve for Encumbrances, December 31	<u>\$8,440</u>	<u>\$2,166</u>	<u>\$10,606</u>

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

**VILLAGE OF DONNELSVILLE  
CLARK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$118,842		\$118,842
Fines and Costs		\$7,018	7,018
Total Operating Cash Receipts	<u>118,842</u>	<u>7,018</u>	<u>125,860</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	4,284		4,284
Contractual Services	59,172		59,172
Supplies and Materials	842	44	886
Remittance to Village		5,492	5,492
Remittance to State		1,482	1,482
Other	10		10
Total Operating Cash Disbursements	<u>64,308</u>	<u>7,018</u>	<u>71,326</u>
Operating Income	<u>54,534</u>		<u>54,534</u>
<b>Non-Operating Disbursements:</b>			
Redemption of Principal	(80,907)		(80,907)
Interest and other Fiscal Charges	(25,802)		(25,802)
Total Non-Operating Disbursements	<u>(106,709)</u>		<u>(106,709)</u>
Net Receipts Over/(Under) Disbursements	(52,175)		(52,175)
Fund Cash Balances, January 1	<u>414,715</u>		<u>414,715</u>
Fund Cash Balances, December 31	<u>\$362,540</u>	<u>\$0</u>	<u>\$362,540</u>
Reserve for Encumbrances, December 31	<u>\$3,608</u>	<u>\$0</u>	<u>\$3,608</u>

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

**VILLAGE OF DONNELSVILLE  
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, 2009**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Local Taxes	\$34,517		\$34,517
Intergovernmental	12,156	\$18,632	30,788
Charges for Services	2,928		2,928
Fines, Licenses and Permits	6,554		6,554
Earnings on Investments	1,353		1,353
Miscellaneous	38		38
Total Cash Receipts	<u>57,546</u>	<u>18,632</u>	<u>76,178</u>
<b>Cash Disbursements:</b>			
<b>Current:</b>			
Security of Persons and Property	16,949		16,949
Transportation		4,033	4,033
General Government	35,624		35,624
Capital Outlay		55,419	55,419
Total Cash Disbursements	<u>52,573</u>	<u>59,452</u>	<u>112,025</u>
Total Receipts Over/(Under) Disbursements	<u>4,973</u>	<u>(40,820)</u>	<u>(35,847)</u>
<b>Other Financing Receipts:</b>			
Sale of Fixed Assets	1,354	11,294	12,648
Total Other Financing Receipts	<u>1,354</u>	<u>11,294</u>	<u>12,648</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	6,327	(29,526)	(23,199)
Fund Cash Balances, January 1	<u>102,669</u>	<u>92,235</u>	<u>194,904</u>
Fund Cash Balances, December 31	<u>\$108,996</u>	<u>\$62,709</u>	<u>\$171,705</u>
Reserve for Encumbrances, December 31	<u>\$1,367</u>	<u>\$525</u>	<u>\$1,892</u>

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

**VILLAGE OF DONNELSVILLE  
CLARK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$113,710		\$113,710
Fines and Costs		\$8,028	8,028
Total Operating Cash Receipts	<u>113,710</u>	<u>8,028</u>	<u>121,738</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	3,348		3,348
Contractual Services	89,158		89,158
Supplies and Materials	40		40
Remittance to State		1,853	1,853
Remittance to Village		6,175	6,175
Other	912		912
Total Operating Cash Disbursements	<u>93,458</u>	<u>8,028</u>	<u>101,486</u>
Operating Income	<u>20,252</u>		<u>20,252</u>
<b>Non-Operating Disbursements:</b>			
Redemption of Principal	(80,050)		(80,050)
Interest and Other Fiscal Charges	(26,605)		(26,605)
Total Non-Operating Disbursements	<u>(106,655)</u>		<u>(106,655)</u>
Net Receipts Over/(Under) Disbursements	(86,403)		(86,403)
Fund Cash Balances, January 1	<u>501,118</u>		<u>501,118</u>
Fund Cash Balances, December 31	<u>\$414,715</u>	<u>\$0</u>	<u>\$414,715</u>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

**VILLAGE OF DONNELSVILLE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**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 Donnelsville, Clark County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides sewer utility and police services. The Village contracts with Bethel Township to receive 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 a commitment is made (i.e., when an encumbrance is approved).

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

**C. Deposits and Investments**

During the period the Village maintained a general checking account, savings account, mayor's court account and utilities account which were valued at cost.

The Village has no investments.

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

These funds account for proceeds from specific sources (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 (SCM&R)** - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

**7.5% Highway Fund** – This fund receives gasoline tax and motor vehicle tax money for constructing and repairing highways.

**VILLAGE OF DONNELSVILLE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Enterprise Funds**

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

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

**4. Fiduciary Funds**

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for court fines and distribution of court fines to appropriate jurisdictions.

**E. Budgetary Process**

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

**1. Appropriations**

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

**2. Estimated Resources**

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

**3. Encumbrances**

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

A summary of 2010 and 2009 budgetary activity appears in Note 3.

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

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

**VILLAGE OF DONNELSVILLE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**2. EQUITY IN POOLED DEPOSITS**

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

	<b>2010</b>	<b>2009</b>
Demand deposits	\$562,404	\$586,420
Total deposits	\$562,404	\$586,420

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

**2010 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$ 37,174	\$ 58,818	\$21,644
Special Revenue	18,500	17,893	(607)
Enterprise	119,440	118,842	(598)
Total	\$175,114	\$195,553	\$20,439

**2010 Budgeted vs. Actual Budgetary Basis Expenditures**

<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$ 50,282	\$ 48,989	\$ 1,293
Special Revenue	24,000	10,169	13,831
Enterprise	180,226	174,625	5,601
Total	\$254,508	\$233,783	\$20,725

**2009 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$ 45,274	\$ 58,900	\$13,626
Special Revenue	18,500	29,926	11,426
Enterprise	71,400	113,710	42,310
Total	\$135,174	\$202,536	\$67,362

**2009 Budgeted vs. Actual Budgetary Basis Expenditures**

<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$ 52,634	\$ 53,940	(\$ 1,306)
Special Revenue	8,521	59,977	(51,456)
Enterprise	196,411	200,113	(3,702)
Total	\$257,566	\$314,030	(\$56,464)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund, Special Revenue funds and Enterprise fund by \$1,306, \$51,456, and \$3,702 respectively, for the year ended December 31, 2009.

**VILLAGE OF DONNELSVILLE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(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.

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. DEBT**

Debt outstanding at December 31, 2010 was as follows:

	<b>Principal</b>	<b>Interest Rate</b>
Ohio Water Development Authority Loan	\$2,519,465	1%

The Ohio Water Development Authority (OWDA) loan relates to the Ohio Environmental Protection Agency mandated sewer project that was completed during 2006. The loan amount for the project is \$2,759,784. The Village will repay the loans in semiannual installments of \$53,354, including interest, over 30 years. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

As of December 31, 2010, the principal balance outstanding is \$2,519,465. Principal and interest requirements to retire the loan outstanding at December 31, 2010, are as follows:

<b>Year Ending December 31:</b>	<b>Principal</b>	<b>Interest</b>	<b>Amount</b>
2011	\$ 81,718	\$ 24,991	\$ 106,709
2012	82,537	24,172	106,709
2013	83,365	23,344	106,709
2014	84,200	22,509	106,709
2015	85,044	21,664	106,708
2016-2020	438,183	95,361	533,544
2021-2025	460,591	72,952	533,543
2026-2030	484,146	49,398	533,544
2031-2035	508,905	24,638	533,543
2036-2037	210,776	2,641	213,417
Total	\$2,519,465	\$361,670	\$2,881,135



**VILLAGE OF DONNELSVILLE  
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**6. RETIREMENT SYSTEMS**

The Village's part-time police officers and clerk-treasurer belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plan's benefits, which include postretirement healthcare and survivor disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants gross salaries for 2010 and 2009, respectively. The Village has paid all contributions required through December 31, 2010.

**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**

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

**9. NONCOMPLIANCE**

The Village did not comply with various laws including posting receipts to the proper fund, maintaining an accurate accounting system, withholding and remitting various taxes, certifying the availability of funds, issuing tax forms, and filing/approving appropriations.

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# Dave Yost • Auditor of State

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

Village of Donnelsville  
Clark County  
15 South Hampton Street, P.O. Box 36  
Donnelsville, Ohio 45319

To the Mayor and the Council:

We have audited the financial statements of the Village of Donnelsville (the Village) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated April 25, 2011 wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. 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 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 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 findings 2010-001 and 2010-002 described in the accompanying schedule of findings to be material weaknesses.

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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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-001 through 2010-009.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated April 25, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

April 25, 2011

**VILLAGE OF DONNELSVILLE  
CLARK COUNTY**

**SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2010-001**

**Noncompliance and Material Weakness**

**Ohio Rev. Code Section 5705.10(D)**, states, in part, that all revenue derived from a source other than the general property tax, and which the law prescribes shall be used for a particular purpose, is to be paid into a special fund for such purpose.

Also, **Ohio Rev. Code Section 5735.28** states that wherever a municipal corporation is on the line of the state highway system as designated by the director of transportation as an extension or continuance of the state highway system, seven and one-half per cent of the amount paid to any municipal corporation pursuant to sections 4501.04, 5735.23, and 5735.27 of the Revised Code shall be used by it only to construct, reconstruct, repave, widen, maintain, and repair such highways, to purchase, erect, and maintain traffic lights and signals, and to erect and maintain street and traffic signs and markers on such highways, or to pay principal, interest, and charges on bonds and other obligations issued pursuant to Chapter 133 of the Revised Code or incurred pursuant to section 5531.09 of the Revised Code for such purposes.

The Village did not properly allocate gas and motor vehicle tax receipts between the Highway fund and the Street Construction, Maintenance and Repair (SCM&R) Fund during 2010 or 2009. The Highway fund is to receive seven and one-half percent and the remaining amount of ninety-two and one-half percent is to be received by the SCM&R fund.

The Village failed to properly record the receipt of the following revenues during the audit period:

<u>Description</u>	<u>Special Revenue Funds</u>			<u>Net Change</u>	<u>Enterprise Funds</u>
	<u>General</u>	<u>SCM&amp;R</u>	<u>7.5% Highway</u>		<u>Sewer</u>
<b>2010</b>					
State and Local Government Highway Distribution	(\$4,260)	\$ 3,940	\$ 320	\$4,260	
	(4,260)	3,940	320	4,260	
<b>2009</b>					
Charges for Services (Sewer Special Assessments)	(1,480)				\$1,480
State and Local Government Highway Distribution	(4,039)	3,708	331	4,039	
Gas Excise Tax		5,458	(5,458)		
Department of Public Safety Vehicle Registration		(41)	41		
Motor vehicle Auto License	(389)	966	(577)	389	
Motor Vehicle Permissive Tax		69	(69)		
	<u>(\$5,908)</u>	<u>\$10,160</u>	<u>(\$5,732)</u>	<u>\$4,428</u>	<u>\$1,480</u>

Positive values reflect the fund(s) where the revenue should have been posted and the negative values reflect the fund(s) where the revenue was actually posted. In accordance with the preceding facts, finding for adjustments are hereby issued against the Village of Donnelville for 2010 and 2009. Adjustments to correct the errors above are reflected in the financial statements and notes. The adjustments have been posted to the Village's accounting system.

**FINDING NUMBER 2010-001  
(Continued)**

Due care should be used when posting revenues to the financial statements. Failure to post revenues to the correct funds could result in incorrect fund balances being maintained and expenditures being paid for money that does not really exist in a fund and are not allowable in the other fund.

**Official's Response:** Official's declined to respond to this finding.

**FINDING NUMBER 2010-002**

**Noncompliance and Material Weakness**

**Ohio Rev. Code Section 733.28** requires that the Village Clerk shall keep the books of the Village, exhibit accurate statements of all moneys received and expended, of all the property owned by the Village and the income derived there from, and of all taxes and assessments. **Ohio Admin. Code Section 117-2-02**, states, in part, that all public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Village's financial reports for 2010 and 2009 contained errors which resulted in reclassifications and adjustments to correctly report the financial activity during the period as follows:

**2010 General Fund**

Property and Local Taxes receipts was overstated by \$7,568  
Intergovernmental receipts was understated by \$4,094  
Fines, Licenses and Permits receipts was overstated by \$551  
Earnings on Investments receipts was understated by \$55  
General Government disbursements was understated by \$1,126  
Ending Fund Cash Balance was overstated \$5,096

**2010 Special Revenue Funds**

Property and Local Taxes receipts was overstated \$3,833  
Intergovernmental receipts was understated \$8,113  
Ending Fund Cash Balance was understated \$4,280

**2010 Enterprise Funds**

Charges for Services receipts was understated \$3,398  
Other disbursements was understated \$10  
Redemption of Principal disbursements was understated \$80,907  
Interest and Other Fiscal Charges disbursements was overstated \$80,907  
Ending Fund Cash Balance was understated \$3,388

**2009 General Fund**

Property and Local Taxes receipts was overstated by \$12,239  
Intergovernmental receipts was understated by \$6,547  
Fines, Licenses and Permits receipts was overstated by \$360  
Earnings on Investments receipts was understated by \$207  
Miscellaneous receipts was understated by \$38  
General Government disbursements was understated by \$768  
Sale of Fixed Assets Receipts was understated by \$1,354  
Special Item Receipts was overstated \$480  
Ending Fund Cash Balance was overstated \$5,701

**FINDING NUMBER 2010-002  
(Continued)**

**2009 Special Revenue Funds**

Property and Local Taxes receipts was overstated by \$7,129  
Intergovernmental receipts was understated \$2,047  
Sale of Fixed Assets Receipts was understated by \$11,294  
Special Item Receipts was overstated \$1,785  
Ending Fund Cash Balance was understated \$4,427

**2009 Enterprise Funds**

Charges for Services receipts was understated \$1,480  
Redemption of Principal disbursements was understated \$80,050  
Interest and Other Fiscal Charges disbursements was overstated \$80,050  
Other Financing Sources receipts was overstated \$106,655  
Ending Fund Cash Balance was overstated \$105,175

Adjustments to correct the errors above are reflected in the financial statements and notes.

Additionally, the Reserve for Encumbrances was understated in 2009 and 2010 in amounts ranging from \$128 to \$3,177 in the General, Special Revenue and Enterprise Funds. These errors were not adjusted on the financial statements.

The Village should develop and implement procedures to verify accurate recordkeeping of all its activities. Failure to maintain complete accountability of public monies could increase the possibility of funds being altered, impaired, lost or stolen. Additionally, independent detailed reviews should be performed over the Village accounting records as a means of providing for their accuracy.

**Official's Response:** Official's declined to respond to this finding.

**FINDING NUMBER 2010-003**

**Noncompliance**

**26 USC 3102(a)** requires public employers to withhold Social Security and Medicare Tax or "payroll tax" from employees hired on or after April 1, 1986. Generally, the payroll tax is mandatory on everyone in employment earning "wages" as defined in 3121 of the Internal Revenue Code. The Village did not withhold Medicare taxes from the Village clerk-treasurer, mayor, the council members, police chief, and the patrolman during 2009 or from January through March 2010. The Village withheld the required taxes beginning in April 2010, however, none of the withholdings were remitted to IRS.

To comply with the abovementioned section of code, the Village should contact the IRS and rectify such issues and procedures should be put in place to remit tax withholdings in a timely manner. Failure to do so could result in assessment of fines and penalties by the IRS.

The Auditor of State will notify the Internal Revenue Service regarding this matter.

**Official's Response:** Official's declined to respond to this finding.

**FINDING NUMBER 2010-004**

**Noncompliance**

**26 USC 3402(a)(1)** requires that, in general, except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary.

**Ohio Rev. Code 5747.06(A)** requires that except as provided in division (E)(3) of this section, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748 of the Revised Code with respect to the compensation included in the employee's adjusted gross income during the calendar year.

The Village did not withhold any federal, state or local taxes from the Council, Mayor, and its employees' salaries from January 2009 through March 2010. The Village withheld the required taxes beginning in April 2010; however, none of the withholdings were remitted to their respective taxing agencies.

The Village should contact the taxing agencies to rectify these issues and procedures should be put in place to remit tax withholdings in a timely manner. Failure to do so could result in assessment of fines and penalties by the Internal Revenue Service and the Ohio Department of Taxation.

The Auditor of State will notify the Internal Revenue Service and the Ohio Department of Taxation regarding this matter.

**Official's Response:** Official's declined to respond to this finding.

**FINDING NUMBER 2010-005**

**Noncompliance**

**Ohio Rev. Code Section 145.03 (A)** requires that membership in the public employees retirement system is compulsory upon being employed and shall continue as long as public employment continues.

Pursuant to **Ohio Rev. Code Section 145.20** membership in the retirement system is optional for elected officials. Pursuant to 26 USC Section 3101 and Section 3102, employees who are not members of retirement systems of employers shall be required to pay into the social security system.

The Council and Mayor did not contribute to the Ohio Public Employees Retirement System (OPERS) or Social Security in 2009 or in January through March 2010. The Council and Mayor began contributing to social security in April 2010, however, none of the withholdings were remitted to the IRS.

The Village should contact the IRS to rectify this issue and procedures should be put in place to remit social security withholdings in a timely manner. Failure to do so could result in assessment of penalties against the Village, and loss of credit towards retirement for the employees.

The Auditor of State will notify the Internal Revenue Service regarding this matter.

**Official's Response:** Official's declined to respond to this finding.



## FINDING NUMBER 2010-006

### Noncompliance

**Ohio Rev. Code Section 5705.41(D)** prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund, free from any previous encumbrance. There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant from 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 not exceeding an amount established by resolution or ordinance adopted by the legislative authority, against any specific line item account over a period not running beyond the current 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 one line item appropriation.

The Village failed to properly certify 19.3% of expenditures examined in 2009 and 2010. The Council also failed to establish a limit for blanket certificates as required.

Failure to properly certify the availability of funds can result in misappropriation of monies and over spending resulting in negative cash fund balances or errors in reporting reserve for encumbrances. 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. The Council should establish a limit for blanket certificates as required. To improve controls over disbursements and to help reduce the possibility that Village funds will exceed budgetary spending limitations, the Village's Clerk-Treasurer should certify that the funds are or will be available prior to the obligation by the Village. When prior certification is not possible, "then and now" certification should be used. The Village should certify purchases to which section 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 Clerk-Treasurer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Clerk-Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Official's Response:** Official's declined to respond to this finding.

**FINDING NUMBER 2010-007**

**Noncompliance**

**Ohio Rev. Code Section 5705.41(B)** requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

The following funds had expenditures in excess of amounts appropriated at December 31, 2009:

<b>Fund</b>	<b>Appropriated</b>	<b>Expended</b>	<b>Variance</b>
<b>Special Revenue Fund:</b>			
SCM&R	\$ 6,021	\$ 57,989	(\$51,968)
<b>Enterprise Fund:</b>			
Sewer	\$196,411	\$200,113	(\$ 3,072)

The following "line items" at the legal level of control had expenditures in excess of amounts appropriated at December 31, 2009:

<b>Fund</b>	<b>Appropriated</b>	<b>Expended</b>	<b>Variance</b>
<b>Enterprise Fund:</b>			
Sewer – Clark County Utilities Treatment & Processing	\$76,871	\$88,677	(\$11,806)

The Village should monitor its budgetary activity as it relates to appropriations and expenditures. This will assist the Village in complying with budgetary requirements while verifying accurate financial position throughout the year.

**Official's Response:** Official's declined to respond to this finding.

**FINDING NUMBER 2010-008**

**Noncompliance**

**26 CFR 1.6041-1 Return of information as to payments of \$600 or more** states that:

(a) General rule. (1) Information returns required--(i) Payments required to be reported. Except as otherwise provided in Sections 1.6041-3 and 1.6041-4, every person engaged in a trade or business shall make an information return for each calendar year with respect to payments it makes during the calendar year in the course of its trade or business to another person of fixed or determinable income described in paragraph (a)(1)(i) (A) or (B) of this section. For purposes of the regulations under this section, the person described in this paragraph (a)(1)(i) is a payor (A) Salaries, wages, commissions, fees, and other forms of compensation for services rendered aggregating \$600 or more. (B) Interest (including original issue discount), rents, royalties, annuities, pensions, and other gains, profits, and income aggregating \$600 or more. Further, 26 USC Section 6041 (a) states that all persons engaged in a trade or business and making payment in the course of such trade or business to another person, of rent, salaries, wages, premiums, annuities, compensations, remunerations, emoluments, or other fixed or determinable gains, profits, and income (other than payments to which section 6042(a)(1), 6044(a)(1), 6047(e), 6049(a), or 6050(a) applies, shall render a true and accurate return to the Secretary, under such regulations and in such a form and manner and to such extent as may be prescribed by the Secretary, setting forth the amount of such gains, profits and income and the name and address of the recipient of such payment. The Secretary prescribed Form 1099-MISC for such returns.

#### FINDING NUMBER 2010-008

**26 CFR 1.6041-2 Return of information as to payments to employees** states that:

(a)(1) In general. Wages, as defined in section 3401, paid to an employee are required to be reported on Form W-2.

The Village did not issue any 1099 forms to its vendors receiving payments of more than \$600 during 2009 and 2010. Additionally, the Village failed to report 2009 wages of its employees to the required agencies. W-2 forms were properly issued for 2010.

The Village should establish policies and procedures to verify that payments in excess of \$600 to independent contractors and attorneys are reported on the 1099 form and all payments to the employees of the Village are reported on the W-2 Form at the end of the year. This would assist the independent contractors/attorneys and the employees during their tax filing process and assist the federal, state and local authorities in detecting tax evasion. Failure to do so could result in assessment of fines and penalties by the Internal Revenue Service and the Ohio Department of Taxation.

**Official's Response:** Official's declined to respond to this finding.

#### FINDING NUMBER 2010-009

##### Noncompliance

**Ohio Rev. Code Section 5705.39** states, in part, that total appropriations from each fund should not exceed the total estimated resources. Further, no appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official certificate or amended official estimate of resources.

Additionally, **Ohio Rev. Code Section 5705.40** states, in part, that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation.

The Village established and filed permanent appropriation measures for 2009 and 2010 with the county budget commission. However, the Village could not locate the certificates from the County Auditor that states appropriations from each fund did not exceed the total official estimate of resources for 2009 and 2010.

It was also noted that the Village failed to properly approve supplemental appropriations for 2009 and the supplemental appropriation approved for 2010 were not filed with county auditor's office.

The Village should develop and implement procedures to properly approve supplemental appropriations throughout the year and obtain the proper documentation from the County Auditor that total appropriations from each fund do not exceed estimated resources. Additionally, the Village should develop and implement procedures to verify that the supplemental appropriations measures, as approved by the Village Council, are filed with the County Auditor's Office. This would enable the Village to comply with budgetary requirements while limiting the risk of spending more than is available.

**Official's Response:** Official's declined to respond to this finding.

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**VILLAGE OF DONNELSVILLE  
CLARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2008-001	ORC 733.28 – Inaccurate Financial Records	No	Not corrected – repeated as 2010-002
2008-002	ORC 5705.41(D) – Failure to use purchase orders	No	Not corrected – repeated as 2010-006
2008-003	ORC 733.40, 2743.70(A)(2), and 2949.091(A)(1)(b) – Failure of mayor’s court to remit funds to Village and State by required dates	Yes	
2008-004	ORC 5705.38(A) – Failure to pass appropriations by required date	Yes	
2008-005	ORC 5705.36(A)(2) – Failure to obtain certificate of estimated resources	Yes	
2008-006	ORC 5735.28 – Failure to properly allocate Gas and Motor Vehicle Tax receipts	No	Not corrected – repeated as 2010-001
2008-007	ORC 5705.39 and 5705.40 – Failure to file appropriations and obtain certificates from County Auditor	No	Not corrected – repeated as 2010-009
2008-008	ORC 5705.41(B) – Expenditures exceeding appropriations	No	Not corrected – repeated as 2010-007
2008-009	OAC 117-2-02(D) – Failure to maintain required financial records	No	Reported in separate letter to Management.
2008-010	ORC 9.38 – Failure to deposit money in timely manner	Yes	
2008-011	ORC 149.351(A) – Lack of supporting documentation for expenditures	Yes	
2008-012	ORC 5705.10(D) – Failure to record revenue in appropriate funds	No	Not corrected - repeated as 2010-001
2008-013	Failure to capitalize accrued interest	Yes	
2008-014	Posting of Revenues and Expenditures	No	Not corrected – Included in 2010-002
2008-015	ORC 135.21 – Inaccurate posting of interest revenues	No	Reported in separate letter to Management.

**VILLAGE OF DONNELSVILLE  
CLARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

2008-016	26 USC Section 3402(a)(1) and ORC 5747.06(A) – Failure to withhold federal, state, or local taxes	No	Partially corrected – repeated as 2010-004
2008-017	26 USC Section 3102(a) and 3121 – Failure to withhold Medicare tax from employees	No	Partially corrected – repeated as 2010-003
2008-018	26 CFR Section 1.6041-1 and 1.6041-2 – Failure to issue 1099's and W-2's	No	Partially corrected – repeated as 2010-008
2008-019	ORC 145.03(A) – Failure to withhold PERS from employees	No	Partially corrected – repeated as 2010-005
2008-020	ORC 5705.34 – Failure to pass an ordinance or resolution to authorize the necessary tax levies	Yes	



# Dave Yost • Auditor of State

VILLAGE OF DONNELSVILLE

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  
JUNE 7, 2011