



**VILLAGE OF McCLURE
HENRY COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 1999-1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**VILLAGE OF McCLURE
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REPORT OF INDEPENDENT ACCOUNTANTS

Village of McClure
Henry County
145 Haley Street
PO Box 340
McClure, Ohio 43534-0340

To the Village Council:

We have audited the accompanying financial statements of the Village of McClure, Henry County, Ohio, (the Village) as of and for the years ended December 31, 1999 and 1998. 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 audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 1999 and 1998, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2000 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 grants.

This report is intended solely for the information and use of management, Village Council, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

Jim Petro
Auditor of State

May 11, 2000

**VILLAGE OF McCLURE
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$79,257			\$79,257
Intergovernmental Receipts	38,306	\$28,722		67,028
Charges for Services	22,361			22,361
Fines, Licenses, and Permits	11,704			11,704
Earnings on Investments	8,157			8,157
Miscellaneous	1,824			1,824
Total Cash Receipts	<u>161,609</u>	<u>28,722</u>		<u>190,331</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	70,263			70,263
Leisure Time Activities	5,097			5,097
Transportation	3,000	41,635		44,635
General Government	53,396			53,396
Total Cash Disbursements	<u>131,756</u>	<u>41,635</u>		<u>173,391</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>29,853</u>	<u>(12,913)</u>		<u>16,940</u>
Other Financing Receipts/(Disbursements):				
Transfers-In		10,760		10,760
Transfers-Out	(13,208)			(13,208)
Other Financing Uses	(368)			(368)
Total Other Financing Receipts/(Disbursements)	<u>(13,576)</u>	<u>10,760</u>		<u>(2,816)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>16,277</u>	<u>(2,153)</u>		<u>14,124</u>
Fund Cash Balances, January 1	<u>(937)</u>	<u>22,707</u>	<u>\$4,006</u>	<u>25,776</u>
Fund Cash Balances, December 31	<u><u>\$15,340</u></u>	<u><u>\$20,554</u></u>	<u><u>\$4,006</u></u>	<u><u>\$39,900</u></u>

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

**VILLAGE OF McCLURE
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 1999**

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$281,917
Operating Cash Disbursements:	
Personal Services	66,402
Fringe Benefits	27,652
Contractual Services	37,636
Supplies and Materials	63,328
Capital Outlay	4
Miscellaneous	300
Total Operating Cash Disbursements	195,322
Operating Income	86,595
Non-Operating Cash Receipts:	
Interest Revenues	1,056
Non-Operating Cash Disbursements:	
Debt Service	111,803
Excess of Cash Disbursements Over Cash Receipts Before Interfund Transfers	(24,152)
Transfers-In	2,448
Net Disbursements Over Receipts	(21,704)
Fund Cash Balances, January 1	232,031
Fund Cash Balances, December 31	\$210,327

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

VILLAGE OF McCLURE
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special</u> <u>Revenue</u>	<u>Capital</u> <u>Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$60,466			\$60,466
Intergovernmental Receipts	50,044	\$52,466		102,510
Charges for Services	20,078			20,078
Fines, Licenses, and Permits	5,101			5,101
Earnings on Investments	2,966			2,966
Miscellaneous	1,008	227		1,235
Total Cash Receipts	<u>139,663</u>	<u>52,693</u>		<u>192,356</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	63,340			63,340
Leisure Time Activities	1,181			1,181
Basic Utility Services	655			655
Transportation	1,060	65,034		66,094
General Government	73,266			73,266
Total Cash Disbursements	<u>139,502</u>	<u>65,034</u>		<u>204,536</u>
Total Cash Receipts (Under) Cash Disbursements	<u>161</u>	<u>(12,341)</u>		<u>(12,180)</u>
Other Financing Receipts/(Disbursements):				
Transfers-In	62,500	34,684		97,184
Transfers-Out	(8,280)	(26,404)	(\$62,500)	(97,184)
Total Other Financing Receipts/Disbursements	<u>54,220</u>	<u>8,280</u>	<u>(62,500)</u>	
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	54,381	(4,061)	(62,500)	(12,180)
Fund Cash Balances, January 1	(55,318)	26,768	66,506	37,956
Fund Cash Balances, December 31	<u>(\$937)</u>	<u>\$22,707</u>	<u>\$4,006</u>	<u>\$25,776</u>

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

**VILLAGE OF McCLURE
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 1998**

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$280,369
Miscellaneous	1,300
	281,669
Operating Cash Disbursements:	
Personal Services	72,355
Fringe Benefits	20,239
Transportation	1,471
Contractual Services	46,838
Supplies and Materials	47,194
	188,097
Operating Income	93,572
Non-Operating Cash Receipts:	
Interest Revenue	7,172
Non-Operating Cash Disbursements:	
Debt Service	100,153
Other Non-Operating Cash Disbursements	617
	100,770
Excess of Cash Disbursements Over Cash Receipts	(26)
Fund Cash Balances, January 1	232,057
Fund Cash Balances, December 31	\$232,031

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

**VILLAGE OF McCLURE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of McClure, Henry County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities, park operations (leisure time activities), and police services

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash

Certificates of deposit are valued at cost.

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

2. Special Revenue Fund

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

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

Permissive Tax Fund -This fund receives license tax money from the State and County Auditor for construction, maintaining, and repairing Village streets.

VILLAGE OF McCLURE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project funds:

Capital Project Fund - This fund is used for purchase of equipment.

4. Enterprise Funds

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

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

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

E. Budgetary Process

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

1. Appropriations

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

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 commitments are made. The Village did not use the encumbrance method of accounting.

A summary of 1999 and 1998 budgetary activity appears in Note 3.

VILLAGE OF McCLURE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

2. EQUITY IN POOLED CASH

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

	<u>1999</u>	<u>1998</u>
Demand deposits	\$19,914	\$34,619
Savings account	188,574	182,637
Certificates of deposit	41,739	40,551
Total deposits	\$250,227	\$257,807

Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 1999 and 1998 follows:

1999 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$159,692	\$161,609	\$1,917
Special Revenue	43,246	39,482	(3,764)
Enterprise	288,839	285,421	(3,418)
Total	\$491,777	\$486,512	(\$5,265)

VILLAGE OF McCLURE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

3. BUDGETARY ACTIVITY (Continued)

1999 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$172,810	\$145,332	\$27,478
Special Revenue	40,300	41,635	(1,335)
Enterprise	280,033	307,125	(27,092)
Total	<u>\$493,143</u>	<u>\$494,092</u>	<u>(\$949)</u>

1998 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$211,830	\$202,163	(\$9,667)
Special Revenue	29,750	87,377	57,627
Enterprise	396,000	288,841	(107,159)
Total	<u>\$637,580</u>	<u>\$578,381</u>	<u>(\$59,199)</u>

1998 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$211,325	\$147,782	\$63,543
Special Revenue	36,800	91,438	(54,638)
Capital Projects	0	62,500	(62,500)
Enterprise	270,550	288,867	(18,317)
Total	<u>\$518,675</u>	<u>\$590,587</u>	<u>(\$71,912)</u>

In 1999, appropriations exceed estimated resources in the Street Construction, Maintenance and Repair Fund. In 1998, appropriations exceed estimated resources in the General and Street Construction, Maintenance and Repair funds.

In 1999 and 1998, expenditures exceeded appropriations in numerous line items at the legal level of control in the various funds of the Village.

In 1999, appropriations were increased in numerous line items at the legal level of control without Council approval.

In 1999 and 1998, the Village did not issue purchase orders nor were monies certified.

In 1999, the Street Construction, Maintenance and Repair and the Sewer Funds had negative fund balances. In 1998, the General Fund had a negative fund balance.

VILLAGE OF McCLURE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, 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, 1999 was as follows:

	Principal	Interest Rate
Sanitary Sewer Mortgage Revenue Bonds	\$1,227,800	5%
Ohio Public Works Commission Loan	121,129	4%
First Mortgage Waterworks Revenue Bonds	300,000	5%
Promissory Note	7,656	5%
Total	\$1,656,585	

The Village issued Sanitary Sewer Mortgage Revenue Bonds and received a loan from the Ohio Public Works Commission for the construction of a wastewater treatment facility. The bonds are payable over 40 years and the loan is payable semiannually over a 20-year period. The First Mortgage Waterworks System bonds were issued for potable water, payable annually over 20 years. The Village has agreed to set utility rates sufficient to cover the Mortgage Revenue Bonds' debt service requirements.

The Village entered into a loan on April 8, 1998 with Mid American National Bank for \$15,675 for the purchase of a police cruiser. This loan is payable over 36 months and is collateralized by a certificate of deposit.

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

VILLAGE OF McCLURE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

5. DEBT (Continued)

Year ending December 31:	Sanitary Sewer Mortgage Revenue Bonds	First Mortgage Waterworks Revenue Bonds	Ohio Public Works Commissions Loan	Promissory Note
2000	\$74,475	\$28,000	\$9,504	\$5,601
2001	74,566	27,350	9,504	2,313
2002	74,523	27,700	9,504	0
2003	74,449	28,000	9,504	0
2004	74,542	27,250	9,504	0
Subsequent	<u>2,374,708</u>	<u>304,350</u>	<u>123,558</u>	<u>0</u>
Total	<u><u>\$2,747,263</u></u>	<u><u>\$442,650</u></u>	<u><u>\$171,078</u></u>	<u><u>\$7,914</u></u>

The Village has not established or funded the Sinking and Debt Reserve Funds as required by the Village Ordinance authorizing the issuance of the Mortgage Revenue Bonds.

6. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 1999 and 1998, members of PFDPF contributed 10% of their wages to the PFDPF. The Village contributed an amount equal to 19.5% of their wages. PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 1999.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

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

The Village also provides health insurance and dental to full-time employees through a private carrier.

8. CONTINGENT LIABILITIES

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



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OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of McClure
Henry County
145 Haley Street
PO Box 340
McClure, Ohio 43534-0340

To the Village Council:

We have audited the accompanying financial statements of the Village of McClure, Henry County, Ohio, (the Village) as of and for the years ended December 31, 1999 and 1998, and have issued our report thereon dated May 11, 2000. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 1999-30125-001 through 1999-30125-012. We noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated May 11, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 1999-30125-013.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information and use of management, Village Council, and the Board of Public Affairs, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

May 11, 2000

**VILLAGE OF McCLURE
SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 1998**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 1999-30135-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

This section also provides two exceptions to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

- B. If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Council.

In all of the transactions tested, the Village did not certify funds as required.

This procedure is not only required by Ohio law, it is also a key control in the disbursement process. This control ensures that purchase commitments receive prior approval which helps to reduce the possibility of funds being over expended. To improve controls over disbursements, it is recommended that the Clerk certify all disbursements and that Council periodically review the expenditures to ensure that they are properly certified by the Clerk and are recorded against appropriations.

FINDING NUMBER 1999-30135-002

Noncompliance Citation

Ohio Administrative Code § 117-5-11(C) requires that each expenditure or encumbrance charged against an appropriation account shall be posted and subtracted from the appropriated balance producing a declining unencumbered balance. This procedure is to be initiated by an executed purchase order.

The Village did not issue purchase orders during the audit period.

We recommend that the Village implement the purchase orders system with the Clerk's certification. The purchase orders should be posted to the appropriation ledger resulting in a declining appropriation balance. In addition, the purchase orders should be approved and signed by an official designated by Council (i.e., Mayor).

FINDING NUMBER 1999-30135-003

Noncompliance Citation

Village of McClure, Sanitary Sewer System Mortgage Revenue Bonds Ordinance No. 539, Section 6, B(2) and B(3) establishes Sinking and Reserve Funds. The purpose of the Sinking Fund is to accumulate monthly the amount to be used toward the semiannual debt (principal and interest) payments. The purpose of the Reserve Fund establishes a minimum reserve amount to be accumulated and can be used to pay for any repairs or replacement of the sewer lines due to any unforeseen catastrophe or for the purpose of making debt payments (principal and interest) in case the Sinking Fund does not have adequate funds.

The Village has not established the necessary funds as required by Ordinance, which is contrary to the debt covenant.

At December 31, 1999, the amount of \$ 24,527 is needed to meet the Debt Reserve requirement. The Village intends to obtain written permission from the United States Department of Agriculture to fund this requirement with unspent grant monies.

FINDING NUMBER 1999-30135-004

Noncompliance Citation

Ohio Revised Code § 5705.40 states 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 Clerk increased appropriations in numerous line items at the legal level of control throughout the year; however, appropriations were not approved by Council. We recommend that management monitor the budgetary expenditure activity and approve appropriation changes before they are entered into the system. The accompanying budgetary presentation (Note 3) includes only amounts appropriated by Council.

FINDING NUMBER 1999-30135-005

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated. The following funds had expenditures exceed appropriations throughout the year and at fiscal year end:

<u>Fiscal Year End 1999</u>	
General	\$11,522
Street Construction, Maintenance and Repair Fund	2,335
Water Fund	4,906
Sewer Fund	98,884
<u>Fiscal Year End 1998</u>	
General	\$22,069
Street Construction, Maintenance and Repair Fund	28,891
Motor Vehicle License	26,404
Capital Projects Fund	62,500
Water Fund	17,940
Sewer Fund	77,170

This can result in deficit spending. We recommend management monitor the budgetary activity of expenditures to ensure that expenditures are within appropriations.

FINDING NUMBER 1999-30135-006

Noncompliance Citation

Ohio Revised Code § 5705.10 states that money paid into a fund must be used only for the purposes for which such fund has been established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The following funds had negative fund balances in 1999 and 1998:

<u>Fiscal Year End 1999</u>		
Street Construction, Maintenance and Repair Fund		\$6,158
Sewer Fund		13,550
<u>Fiscal Year End 1998</u>		
General Fund		\$937

We recommend that management and the Clerk review monthly financial reports and monitor fund balances.

FINDING NUMBER 1999-30135-007

Noncompliance Citation

Ohio Revised Code § 5705.39 states the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure shall become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed such official estimate or amended official estimate. There is no evidence of the Village receiving a certificate from the County Auditor for the annual appropriation measure in 1998. The following funds appropriations exceeded the latest amended certificate of estimated resources:

	<u>Appropriations</u>	<u>Estimated Resources</u>
<u>Fiscal Year 1999</u>		
Street Construction, Maintenance and Repair Fund	\$39,300	\$33,560
<u>Fiscal Year 1998</u>		
General Fund	\$211,325	\$157,850
Street Construction, Maintenance and Repair Fund	35,800	10,151

We recommend appropriations measures be compared to the latest amended certificate of estimated resources and appropriate modifications be made prior to submitting them to the County Auditor. We also recommend that management review this Revised Code section and Auditor of State Bulletin 97-010 and 97-012 which addresses budgetary issues.

FINDING NUMBER 1999-30135-008

Noncompliance Citation

Village of McClure Ordinance 516 Section 9 addressed the allocation of income tax fund balances. This Ordinance was amended by the Village Council on February 26, 1998. The amendment allocates 80% of income tax fund balances to the General Fund and 20% to the Street Construction, Maintenance and Repair Fund. In 1999, the Clerk incorrectly allocated \$5,040 too much to the Street Construction, Maintenance and Repair Fund. This required an adjustment from the Street Construction, Maintenance and Repair Fund to the General Fund. The Clerk has made the adjustments and the adjustments are reflected in the financial statements.

FINDING NUMBER 1999-30135-009

Noncompliance Citation

Ohio Revised Code § 5705.10 states money that is paid into a fund must be used only for the purposes for which such fund has been established. In 1998, the Village incorrectly posted Debt Service expenditures totaling \$75,009 into the Utility Improvement Fund. This required audit adjustments from the Utility Improvement Fund to the Sewer Operating Fund and Water Fund. In 1999, the Village incorrectly posted Debt Service expenditures totaling \$4,752 into the Water Operating Fund and \$300 meter deposit refund into the Utility Improvement Fund. This required adjustments from the Water Operating Fund to the Sewer Operating Fund and from the Utility Improvement Fund to the Meter Deposit Fund. The Clerk has made the adjustments and the adjustments are reflected in the financial statements.

FINDING NUMBER 1999-30135-010

Noncompliance Citation

Ohio Rev. Code Section 5705.10 states 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. In 1998, the Village incorrectly posted intergovernmental receipts totaling \$1,554 into the State Highway Fund, \$342 to the Motor Vehicle License Tax Fund, and \$800 to the General Fund. This required adjustments from the State Highway Fund, Motor Vehicle License Tax Fund, and General Fund to the Street Construction, Maintenance and Repair Fund. In 1999, the Village incorrectly posted intergovernmental receipts totaling \$2,366 into the Motor Vehicle License Tax Fund. This required adjustments from the Motor Vehicle License Tax Fund to the State Highway Fund and Street Construction, Maintenance and Repair Fund. The Clerk has made the adjustments and the adjustments are reflected in the financial statements.

FINDING NUMBER 1999-30135-011

Noncompliance Citation

Auditor of State Bulletin 97-003 states that advances must be approved by a formal resolution by the taxing authority of the subdivision. It also states that there must be statutory authority to use the money in the fund advancing the cash for the same purpose for which the fund receiving the cash was established. In 1999, there was \$15,500 in unpaid advances from the Sewer Operating Fund to the General Fund. The advance was not approved by Council nor documented by a formal resolution. In addition, there is no statutory authority to use Sewer Operating Funds to pay for General Fund operating costs. This required an adjustment from the Sewer Operating Fund to the General Fund. The Clerk has made the adjustments and the adjustments are reflected in the financial statements.

FINDING NUMBER 1999-30135-012

Noncompliance Citation

Ohio Revised Code Chapter 133 sets forth the manner in which the local governments are permitted to issue debt. These provisions do not permit the pledge of collateral for real estate and personal property. The Village pledged a \$20,000 certificate of deposit as collateral in securing a loan for the purchase of a police cruiser. The \$20,000 was inadvertently expensed off the books. In addition, the interest earned on the certificate in 1999 of \$1,187 and in 1998 of \$666 was not receipted in the books. This required an adjustment to the General fund for the interest and the Sewer fund for the amount of the certificate of deposit. The Clerk has made the adjustments and the adjustments are reflected in the financial statements.

FINDING NUMBER 1999-30135-013

Reportable Condition - Income Tax

We noted errors in 17% of the income tax forms tested. Errors ranged from incorrect statements of gross earnings, incorrect statements of earnings subject to reciprocity, local income tax withholdings claimed did not correspond with attached W-2's and computation error by tax preparer.

These errors resulted in the underpayment of income tax. In two cases the Village issued refunds to residents when the residents should have had to pay income tax.

We recommend the Clerk carefully review income tax forms and compare to attached W-2's to ensure correct gross earnings and withholdings are used. Also, the Clerk should review past income tax forms including the ones identified as erroneous and pursue collection if underpayment exists.



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OFFICE OF THE AUDITOR

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VILLAGE OF MCCLURE

HENRY 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 6, 2000**