



**VILLAGE OF MCCOMB
HANCOCK COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006



Mary Taylor, CPA
Auditor of State

VILLAGE OF MCCOMB
HANCOCK COUNTY

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Mary Taylor, CPA

Auditor of State

Village of McComb
Hancock County
210 E. Main Street, P.O. Box 340
McComb, Ohio 45858-0340

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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 10, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of McComb
Hancock County
210 E. Main Street, P.O. Box 340
McComb, Ohio 45858-0340

To the Village Council:

We have audited the accompanying financial statements of the Village of McComb, Hancock County, (the Village) as of and for the years ended December 31, 2006 and 2005. 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. 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, 2006 and 2005, 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, 2005 and 2005, or its changes in financial position or cash flows 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 The Village of McComb, Hancock County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 10, in accordance with the requirements of Governmental Accounting Standards Board Statement Number 34, the Village's expendable trust fund has been reclassified.

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 September 10, 2007, 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.



Mary Taylor, CPA
Auditor of State

September 10, 2007

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

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

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Local Taxes	\$98,212		\$48,060		\$146,272
Municipal Income Tax	592,956				592,956
Intergovernmental	171,769	\$140,661	3,034	\$77,118	392,582
Special Assessments		34,177		91,122	125,299
Charges for Services	2,129	1,000			3,129
Fines, Licenses and Permits	7,467				7,467
Earnings on Investments	121,812	8,741			130,553
Miscellaneous	6,554				6,554
Total Cash Receipts	1,000,899	184,579	51,094	168,240	1,404,812
Cash Disbursements:					
Current:					
Security of Persons and Property	234,948				234,948
Public Health Services	39,676				39,676
Leisure Time Activities	89,685				89,685
Community Environment	12,769				12,769
Basic Utility Service	58,940	19,100			78,040
Transportation	206,887	32,446			239,333
General Government	242,009	1,000			243,009
Debt Service:					
Redemption of Principal			57,963		57,963
Interest and Fiscal Charges			18,962		18,962
Capital Outlay				150,277	150,277
Total Cash Disbursements	884,914	52,546	76,925	150,277	1,164,662
Total Receipts Over/(Under) Disbursements	115,985	132,033	(25,831)	17,963	240,150
Other Financing Receipts / (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Notes				61,062	61,062
Transfers-In			17,259		17,259
Transfers-Out	(17,259)				(17,259)
Other Financing Uses			(1,446)		(1,446)
Total Other Financing Receipts / (Disbursements)	(17,259)		15,813	61,062	59,616
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	98,726	132,033	(10,018)	79,025	299,766
Fund Cash Balances, January 1	760,992	474,736	25,507	465,210	1,726,445
Fund Cash Balances, December 31	\$859,718	\$606,769	\$15,489	\$544,235	\$2,026,211
Reserve for Encumbrances, December 31	\$16,928	\$2,845		\$11,605	\$31,378

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

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$1,517,905
Miscellaneous	5,456
	1,523,361
Operating Cash Disbursements:	
Personal Services	107,301
Employee Fringe Benefits	4,824
Contractual Services	877,759
Supplies and Materials	46,395
Other	2,320
Capital Outlay	32,747
	1,071,346
Operating Income	452,015
Non-Operating Cash Disbursements:	
Redemption of Principal	128,857
Interest and Other Fiscal Charges	86,603
	215,460
Excess of Receipts Over Disbursements	236,555
Fund Cash Balances, January 1	1,376,852
Fund Cash Balances, December 31	\$1,613,407
Reserve for Encumbrances, December 31	\$151,031

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

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Local Taxes	\$97,845		\$47,363		\$145,208
Municipal Income Tax	631,870				631,870
Intergovernmental	96,972	\$73,937	3,758	\$65,729	240,396
Special Assessments		34,455		91,863	126,318
Charges for Services	16,317				16,317
Fines, Licenses and Permits	5,717				5,717
Earnings on Investments	54,857	6,257			61,114
Miscellaneous	6,396				6,396
Total Cash Receipts	909,974	114,649	51,121	157,592	1,233,336
Cash Disbursements:					
Current:					
Security of Persons and Property	253,438				253,438
Public Health Services	37,732				37,732
Leisure Time Activities	73,762				73,762
Community Environment	26,076				26,076
Basic Utility Service	21,774	18,862			40,636
Transportation	167,529	31,203			198,732
General Government	256,487				256,487
Debt Service:					
Redemption of Principal			50,095		50,095
Interest and Fiscal Charges			20,185		20,185
Capital Outlay				163,792	163,792
Total Cash Disbursements	836,798	50,065	70,280	163,792	1,120,935
Total Receipts Over/(Under) Disbursements	73,176	64,584	(19,159)	(6,200)	112,401
Other Financing Receipts / (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Notes	15,179			73,774	88,953
Transfers-In			12,186		12,186
Transfers-Out	(12,186)				(12,186)
Other Financing Uses			(1,614)		(1,614)
Total Other Financing Receipts / (Disbursements)	2,993		10,572	73,774	87,339
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	76,169	64,584	(8,587)	67,574	199,740
Fund Cash Balances, January 1	684,823	410,152	34,094	397,636	1,526,705
Fund Cash Balances, December 31	\$760,992	\$474,736	\$25,507	\$465,210	\$1,726,445
Reserve for Encumbrances, December 31	\$40,139	\$4,224		\$213	\$44,576

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

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$1,230,684
Miscellaneous	4,594
	1,235,278
Operating Cash Disbursements:	
Personal Services	103,338
Employee Fringe Benefits	6,629
Contractual Services	782,600
Supplies and Materials	40,085
Other	3,826
Capital Outlay	28,495
	964,973
Operating Income	270,305
Non-Operating Cash Disbursements:	
Redemption of Principal	122,677
Interest and Other Fiscal Charges	93,568
	216,245
Excess of Receipts Over Disbursements	54,060
Fund Cash Balances, January 1	1,322,792
Fund Cash Balances, December 31	\$1,376,852
Reserve for Encumbrances, December 31	\$191,292

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

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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 McComb, Hancock County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water, sewer, and gas utilities and general governmental services including road maintenance, park operations, and police services.

The Village participates in the Public Entities Pool of Ohio. Note 8 to the financial statements provides additional information for this entity.

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, as the Auditor of State prescribes or permits.

C. Cash and Investments

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

The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

The General Fund 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:

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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

Street Lighting Assessment Fund -This fund receives special assessments to maintain the Village street lighting.

3. Debt Service Funds

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Fund:

Wastewater Plant Bond Retirement Fund – This fund receives property taxes to retire the waste water treatment plant debt.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project funds:

East Perrin Ave. Waterline Fund – This fund receives proceeds of grants and a loan. The proceeds are being used to construct a new waterline.

East Perrin Ave. Sewer line Fund – This fund receives proceeds of grants and a loan. The proceeds are being used to construct a new sewer line.

5. 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:

Gas Fund - This fund receives charges for services from residents to cover the cost of providing natural gas services.

E. Budgetary Process

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

1. Appropriations

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

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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 reappropriated.

A summary of 2006 and 2005 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.

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH

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

	2006	2005
Demand deposits	\$2,511,960	\$1,979,750
Certificates of deposit	\$1,127,608	\$1,123,497
Cash on Hand	50	50
Total deposits	3,639,618	3,103,297

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

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$838,371	\$1,000,899	\$162,528
Special Revenue	220,769	184,579	(36,190)
Debt Service	71,817	68,353	(3,464)
Capital Projects	535,935	229,302	(306,633)
Enterprise	1,306,000	1,523,361	217,361
Total	\$2,972,892	\$3,006,494	\$33,602

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,599,363	\$919,101	\$680,262
Special Revenue	623,736	55,391	568,345
Debt Service	97,325	78,371	18,954
Capital Projects	1,001,145	161,882	839,263
Enterprise	2,682,851	1,437,837	1,245,014
Total	\$6,004,420	\$2,652,582	\$3,351,838

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$755,867	\$925,153	\$169,286
Special Revenue	81,800	114,649	32,849
Debt Service	93,283	63,307	(29,976)
Capital Projects	371,781	231,366	(140,415)
Enterprise	1,179,000	1,235,278	56,278
Total	\$2,481,731	\$2,569,753	\$88,022

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. BUDGETARY ACTIVITY – (CONTINUED)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,442,690	\$889,123	\$553,567
Special Revenue	489,653	54,289	435,364
Debt Service	127,377	71,894	55,483
Capital Projects	769,418	164,005	605,413
Enterprise	2,501,792	1,372,510	1,129,282
Total	\$5,330,930	\$2,551,821	\$2,779,109

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. LOCAL INCOME TAX

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

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

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. DEBT

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loans	\$1,434,043	3.5% to 9.78%
Ohio Public Works Commission Loans	127,817	0.00%
General Obligation Bonds	290,000	4.25% to 7.7%
Leases	125,706	5.25% to 9.5%
Total	\$1,977,566	

The Ohio Water Development Authority (OWDA) loans relate to utility construction and improvement projects. In 1985 the Village was approved for a loan of \$291,227 for water plant improvements, this loan has a remaining balance of \$100,464 at year end. In 1987 the Village was approved for a loan of \$615,728 for waste water treatment plant improvements, this loan has a remaining balance of \$320,684 at year end. In 1999 the Village was approved for a loan of \$1,210,580 for a construction of a new drinking water treatment plant, this loan has a remaining balance of \$927,304 at year end. In 2005 the Village was approved for a loan of \$89,843 for sanitary sewer line improvement on East Perrin Avenue, this loan has a remaining balance of \$85,591 at year end. Three of the four loans are being repaid with revenues generated from user charges; the sanitary sewer line project loan is being repaid with funds transferred from the General Fund.

The Ohio Public Works Commission (OPWC) loans relate to the installation of waterlines in the Village. There are four separate loans issued in 1992, 1993, 1995 and 2005 in the amounts of \$68,573, \$69,613, \$34,604 and \$61,062, respectively, with outstanding balances at year end of \$24,000, \$27,845, \$16,437 and \$59,535. These notes are being retired from debt service funds with monies transferred from the General Fund.

The General Obligation Bonds were issued for the construction of the wastewater treatment plant and for purchase of a natural gas distribution system for Village residents. The wastewater treatment bonds were issued in 1989 in the amount of \$600,000, with \$150,000 outstanding at year end. The gas distribution bonds were issued in 1995 in the amount of \$400,000, with \$140,000 outstanding at year end. The wastewater treatment bonds are being retired with taxes levied on all property in the Village and the gas bonds are being retired with revenues generated through user charges.

Lease-to-own agreements were entered into for the purchase of a Sewer Vacuum Truck in 2003, a police vehicle in 2005 and a backhoe in 2006.

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. DEBT – (CONTINUED)

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

Year ending December 31:	OWDA loans	OPWC Loans	General Obligation Bonds	Leases
2007	\$183,313	\$11,693	\$94,805	\$63,719
2008	184,343	11,693	99,615	54,257
2009	185,468	11,692	98,718	20,999
2010	186,697	11,693	42,400	
2011	156,494	11,692		
2012 – 2016	642,699	40,350		
2017 – 2021	358,711	15,265		
2022– 2026	24,010	13,739		
Total	<u>\$1,921,735</u>	<u>\$127,817</u>	<u>\$335,538</u>	<u>\$138,975</u>

7. RETIREMENT SYSTEMS

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees and part-time police officers belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. 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 2006 and 2005, OP&F participants contributed 10% of their wages. For 2006 and 2005, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

8. RISK MANAGEMENT

The Government is exposed to various risks of property and casualty losses, and injuries to employees.

The Government insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Government belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

8. RISK MANAGEMENT – (CONTINUED)

Casualty Coverage

For an occurrence prior to January 1, 2006, PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005.

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

8. RISK MANAGEMENT – (CONTINUED)

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	<u>(15,875,741)</u>	<u>(15,994,168)</u>
Retained earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>
<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	<u>(863,163)</u>	<u>(1,068,245)</u>
Retained earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Government's share of these unpaid claims collectible in future years is approximately \$59,000. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Contributions to PEP

2005	\$30,168
2006	\$29,487

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**VILLAGE OF MCCOMB
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

9. 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.

10. RECLASSIFICATION OF FUND BALANCE

Pursuant to Governmental Accounting Standards Board Statement Number 34, the Village has reclassified its expendable trust fund to a special revenue fund for 2005. The effect on fund balances is as follows:

	Special Revenue	Expendable Trust
Fund Balances as reported at December 31, 2004	\$408,152	\$2,000
Reclassification of Fund Balances	<u>2,000</u>	<u>(\$2,000)</u>
Restated Fund Balances at January 1, 2005	<u><u>\$410,152</u></u>	<u><u></u></u>



Mary Taylor, CPA

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 McComb
Hancock County
210 E. Main Street, P.O. Box 340
McComb, Ohio 45858-0340

To the Village Council:

We have audited the financial statements of the Village of McComb, Hancock County, (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated September 10, 2007, 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 the Village reclassified its expendable trust fund. 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 expressing our opinion on the financial statements, but not to opine 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.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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www.auditor.state.oh.us

We noted certain matters that we reported to the Village's management in a separate letter dated September 10, 2007.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 10, 2007



Mary Taylor, CPA
Auditor of State

VILLAGE OF MCCOMB

HANCOCK 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
OCTOBER 11, 2007**