



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF McCLURE
HENRY COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of McClure
Henry County
145 Haley Street
P.O. Box 340
McClure, Ohio 43534-0340

To the Village Council:

We have audited the accompanying financial statements of the Village of McClure (the Village) as of and for the years ended December 31, 2001 and 2000. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audit provides 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 and reserves for encumbrances of the Village as of December 31, 2001 and 2000, 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 August 21, 2002 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Village of McClure
Henry County
Report of Independent Accountants
Page 2

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". The signature is stylized with a large, looping initial "J" and a long, sweeping underline.

Jim Petro
Auditor of State

August 21, 2002

**VILLAGE OF McCLURE
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$78,429			\$78,429
Intergovernmental Receipts	37,563	\$30,026		67,589
Charges for Services	11,714			11,714
Fines, Licenses, and Permits	12,539			12,539
Earnings on Investments	7,499			7,499
Miscellaneous	10,233			10,233
	<u>157,977</u>	<u>30,026</u>		<u>188,003</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	62,531			62,531
Leisure Time Activities	2,656			2,656
Transportation		33,084		33,084
General Government	66,802			66,802
Debt Service		1,999		1,999
Capital Outlay		5,200		5,200
	<u>131,989</u>	<u>40,283</u>		<u>172,272</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>25,988</u>	<u>(10,257)</u>		<u>15,731</u>
Other Financing Receipts/(Disbursements):				
Transfers-In	4,719	9,684	\$4,842	19,245
Transfers-Out	(19,245)			(19,245)
Other Financing Sources		5,812		5,812
Contingencies	(555)			(555)
	<u>(15,081)</u>	<u>15,496</u>	<u>4,842</u>	<u>5,257</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	10,907	5,239	4,842	20,988
Fund Cash Balances, January 1	23,019	24,862	8,859	56,740
Fund Cash Balances, December 31	<u>\$33,926</u>	<u>\$30,101</u>	<u>\$13,701</u>	<u>\$77,728</u>
Reserves for Encumbrances, December 31				

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

VILLAGE OF McCLURE
HENRY COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	<u>\$272,101</u>
Operating Cash Disbursements:	
Personal Services	34,019
Fringe Benefits	7,732
Contractual Services	87,969
Supplies and Materials	59,682
Capital Outlay	40,050
Miscellaneous	<u>742</u>
Total Operating Cash Disbursements	<u>230,194</u>
Operating Income	<u>41,907</u>
Non-Operating Cash Receipts:	
Property Tax and Other Local Taxes	
Intergovernmental Receipts	40,050
Fines, Licenses and Permits	5,852
Other Non-Operating Receipts	<u>2,344</u>
Total Non-Operating Cash Receipts	<u>48,246</u>
Non-Operating Cash Disbursements:	
Debt Service	108,827
Other Non-Operating Cash Disbursements	<u>2,339</u>
Total Non-Operating Cash Disbursements	<u>111,166</u>
Net Disbursements Over Receipts	(21,013)
Fund Cash Balances, January 1	<u>182,674</u>
Fund Cash Balances, December 31	<u><u>\$161,661</u></u>
Reserve for Encumbrances, December 31	<u><u>\$88</u></u>

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

**VILLAGE OF McCLURE
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$79,353				\$79,353
Intergovernmental Receipts	38,063	\$29,005			67,068
Charges for Services	3,048				3,048
Fines, Licenses, and Permits	4,461				4,461
Earnings on Investments	9,761				9,761
Miscellaneous	4,823				4,823
Total Cash Receipts	<u>139,509</u>	<u>29,005</u>			<u>168,514</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	51,396				51,396
Leisure Time Activities	1,216				1,216
Transportation		34,700			34,700
General Government	64,455				64,455
Debt Service		2,196	\$7,000		9,196
Total Cash Disbursements	<u>117,067</u>	<u>36,896</u>	<u>7,000</u>		<u>160,963</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>22,442</u>	<u>(7,891)</u>	<u>(7,000)</u>		<u>7,551</u>
Other Financing Receipts/(Disbursements):					
Sale of Bonds or Notes					
Transfers-In		30,049	7,000	\$4,853	41,902
Advances-In	6,550				6,550
Transfers-Out	(14,559)	(17,850)			(32,409)
Advances-Out	(6,550)				(6,550)
Contingencies	(204)				(204)
Total Other Financing Receipts/(Disbursements)	<u>(14,763)</u>	<u>12,199</u>	<u>7,000</u>	<u>4,853</u>	<u>9,289</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	<u>7,679</u>	<u>4,308</u>		<u>4,853</u>	<u>16,840</u>
Fund Cash Balances, January 1	<u>15,340</u>	<u>20,554</u>		<u>4,006</u>	<u>39,900</u>
Fund Cash Balances, December 31	<u><u>\$23,019</u></u>	<u><u>\$24,862</u></u>		<u><u>\$8,859</u></u>	<u><u>\$56,740</u></u>
Reserves for Encumbrances, December 31					

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

**VILLAGE OF McCLURE
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2000**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$260,224
Operating Cash Disbursements:	
Personal Services	56,822
Fringe Benefits	22,759
Contractual Services	32,665
Supplies and Materials	62,111
Miscellaneous	772
Total Operating Cash Disbursements	175,129
Operating Income	85,095
Non-Operating Cash Receipts:	
Fines, Licenses and Permits	6,267
Total Non-Operating Cash Receipts	6,267
Non-Operating Cash Disbursements:	
Other Financing Uses	2,197
Debt Service	107,325
Total Non-Operating Cash Disbursements	109,522
Excess of Disbursements Over Receipts Before Interfund Transfers	(18,160)
Transfers-In	2,492
Transfers-Out	(11,985)
Net Disbursements Over Receipts	(27,653)
Fund Cash Balances, January 1	210,327
Fund Cash Balances, December 31	\$182,674
Reserve for Encumbrances, December 31	

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

**VILLAGE OF McCLURE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of McClure (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 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 income tax, 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
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. Debt Service Fund

This fund was used to accumulate resources for the payment of indebtedness.

4. 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 fund:

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

5. 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.

Utility Improvement Fund - This fund maintains a balance of grant/loan funds to be used to complete the sewer project.

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 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. 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 commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2001 and 2000 budgetary activity appears in Note 3.

**VILLAGE OF McCLURE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(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. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH

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

	2001	2000	
Demand deposits	\$39,561	\$1,709	
Seven-Day Saving Accounts	159,415	194,707	
Certificates of deposit	40,413	42,998	
Total deposits	\$239,389	\$239,414	

Deposits are either 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, 2001 and 2000 follows:

Fund Type	2001 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$177,436	\$162,696	(\$14,739)
Special Revenue	29,691	45,522	10,019
Debt Service	12,000		(12,000)
Capital Projects	4,853	4,842	(11)
Enterprise	271,461	320,347	48,886
Total	\$495,441	\$527,596	\$32,155

**VILLAGE OF McCLURE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

2001 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$180,896	\$151,789	\$29,107
Special Revenue	32,024	40,283	(8,259)
Enterprise	265,887	341,448	(75,561)
Total	<u>\$478,807</u>	<u>\$533,520</u>	<u>(\$54,713)</u>

2000 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$177,738	\$139,509	(\$38,229)
Special Revenue	28,723	59,054	30,331
Debt Service		7,000	7,000
Capital Projects		4,853	4,853
Enterprise	288,520	268,983	(22,029)
Total	<u>\$494,981</u>	<u>\$476,907</u>	<u>(\$18,074)</u>

2000 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$177,905	\$131,830	\$46,075
Special Revenue	54,650	54,746	(96)
Debt Service		7,000	(7,000)
Enterprise	268,065	296,636	(28,571)
Total	<u>\$500,620</u>	<u>\$490,212</u>	<u>\$10,408</u>

In 2001 the Street Construction, Maintenance and Repair and the Sewer Operating funds had negative fund balances (\$6,508) and (\$40,938) respectively. In 2000 the Sewer Operating fund had a negative fund balance (\$25,925).

In 2001 expenditures exceeded appropriations in the Street Construction, Maintenance and Repair fund (\$9,259), Water Operating fund (\$65,404) and Sewer Operating fund (\$84,818). In 2000 expenditures exceeded appropriations in the Permissive Motor Vehicle License Tax fund (\$2,500), Debt Service fund (\$7,000), Water Operating fund (\$5,065) and Sewer Operating fund (\$93,324).

In 2001 appropriations exceed estimated resources in Street Construction, Maintenance and Repair fund (\$3,432). In 2000 appropriations exceed estimated resources in Permissive Motor Vehicle License Tax fund (\$6,334), Street Construction, Maintenance and Repair fund (\$16,788) and Utility Improvement fund (\$62,477).

**VILLAGE OF McCLURE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

In 2001 and 2000 appropriations were increased throughout the year in numerous line items at the legal level of control without council approval.

In 2001 the Village Clerk transferred \$34,720 from the Sewer Operating fund to the Utility Improvement fund without an affirmative vote of two thirds of the members of the taxing authority.

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. LOCAL INCOME TAX

The Village levies a municipal income tax of one 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.

6. DEBT

Debt outstanding at December 31, 2001 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sanitary Sewer Mortgage Revenue Bonds	\$1,203,700	5%
Ohio Public Works Commission Loan	112,534	4%
First Mortgage Waterworks Revenue Bonds	<u>274,000</u>	5%
Total	<u><u>\$1,590,234</u></u>	

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 OF McCLURE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

Village granted to holders of the Bonds a mortgage upon all property, real, personal and mixed and revenue constituting the Systems of the Village.

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

Year Ending December 31:	Sanitary Sewer Mortgage Revenue Bonds	First Mortgage Waterworks Revenue Bonds	Ohio Public Works Commission Loan
2002	\$74,523	\$27,700	\$9,505
2003	74,449	28,000	9,504
2004	74,542	27,250	9,505
2005	74,495	27,500	9,504
2006	74,412	27,700	9,505
2007 - 2011	372,246	139,750	47,522
2012 - 2016	371,885	109,400	47,523
2017 - 2021	371,394		14,257
2022 - 2026	370,910		
2027 - 2031	370,111		
2032 - 2036	369,255		
Total	<u>\$2,598,222</u>	<u>\$387,300</u>	<u>\$156,825</u>

The Village has not established or funded the water and sewer sinking and sewer debt reserve funds as required by village ordinances authorizing the issuance of the mortgage revenue bonds. Also, the requirements of submitting financial information to the Ohio Public Works Commission and audited financial statements to the United States Department of Agriculture were not performed contrary to the loan agreements.

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including post retirement 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 2001 and 2000, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of PERS participant's gross salaries for 2001 and from January 1, 2000 through June 30, 2000. PERS temporarily reduced the employer contributions rate to 8.13% effective July 1, 2000 through December 31, 2000. The Village had a \$1,292 contribution to the PFDPF and a \$2,414 contribution to PERS still outstanding at December 31, 2001.

**VILLAGE OF McCLURE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

8. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

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

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

Village of McClure
Henry County
145 Haley Street
P.O. Box 340
McClure, Ohio 43534-0340

To the Village Council:

We have audited the accompanying financial statements of the Village of McClure (the Village) as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated August 21, 2002. 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 *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 audit 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 2001-30135-001 through 2001-30135-010. We noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated August 21, 2002.

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. The reportable condition is described in the accompanying schedule of findings 2001-30135-011.

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 a material weakness.

This report is intended solely for the information and use of management and Village Council, 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

August 21, 2002

**VILLAGE OF McCLURE
HENRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2001-30135 -001

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 2001 and 2000:

Fiscal Year End 2000

Sewer Operating Fund	(\$25,925)
----------------------	------------

Fiscal Year End 2001

Street Construction, Maintenance and Repair Fund	(\$6,508)
Sewer Operating Fund	(\$40,938)

This condition has existed in the Sewer Operating Fund since the Village was required to build and maintain their own wastewater treatment facility. The revenues to meet the expenses for operating this system and the related debt have not been sufficient. Inappropriate expenditures were made from other funds to meet the related expenses of the Sewer Operating Fund. This resulted in adjustments to the financial statements as reported in the succeeding findings. We recommend Council and the Board of Public Affairs monitor these funds closely throughout the year and subsidize these funds through a transfer or advance from the general fund, increase revenue or restrict expenditures until a positive fund balance exists. We further recommend that Council seek outside assistance to review the revenue generated to the required expenses for the Sewer Operating Fund to determine what steps need to be made to get this fund into a positive cash flow position. This type of review could be performed by Local Government Services a division of the Auditor of States Office.

In 2000 sewer utility payments were misposted to the Street Construction, Maintenance and Repair fund. This required adjustment from the Street Construction, Maintenance and Repair fund to the Sewer Operating fund in the amount of \$686. The Clerk has made the adjustments and the adjustment is reflected in the financial statements.

During the audit period expenditures and revenue were incorrectly posted to the Utility Improvement fund as follows:

<u>Description</u>	<u>Amount</u>	<u>Affected Fund</u>
<u>Fiscal Year 2000</u>		
Incorrectly posted debt service payments	\$ 67,625	Sewer Operating Fund
	7,000	Debt Service Fund
Incorrectly posted miscellaneous expenditures	772	Sewer Operating Fund
Posted entire backhoe lease payment	2,196	Sewer Operating Fund
	2,196	Street Construction, Maintenance and Repair Fund
<u>Fiscal Year 2001</u>		
Incorrectly posted debt service payments	\$ 74,725	Sewer Operating Fund
Incorrectly posted miscellaneous expenditures	742	Sewer Operating Fund
Receipts incorrectly posted	2,344	Sewer Operating Fund
Posted entire backhoe lease payment should have been only one-third	2,000	Sewer Operating Fund
	2,000	Street Construction, Maintenance and Repair Fund

This required adjustments in 2000 and 2001 between the Utility Improvement fund and the Sewer Operating, Debt Service and Street Construction, Maintenance funds. The Clerk has made the adjustments and the adjustments are reflected in the financial statements.

FINDING NUMBER 2001-30135-002

Noncompliance Citation

Ohio Revised Code § 5705.39 states that the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The Village could not provide evidence of receipt of the County Auditor's certificate in 2001. Approved appropriations exceeded total estimated resources as presented on the latest amended Certificate of Estimated Resources at year end 2000 and 2001 for the following funds and amounts:

<u>Fiscal Year End 2000</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Variance</u>
Permissive Motor Vehicle License Tax Fund	\$15,350	\$9,016	(\$6,334)
Street Construction, Maintenance and Repair Fund	\$38,300	\$21,512	(\$16,788)
Utility Improvement Fund	\$75,000	\$12,523	(\$62,477)
<u>Fiscal Year End 2001</u>			
Street Construction, Maintenance and Repair Fund	\$31,024	\$27,592	(\$3,432)

Failure to monitor budgetary variances can result in deficit spending and negative fund balances. We recommend that the Council Finance Committee monitor estimated resources and appropriations throughout the year and make the necessary modifications, with Council approval, to avoid appropriations exceeding estimated resources. The Village Clerk should also request that the county auditor provide the above mentioned certification for any Council approved modifications to estimated resources and appropriations. We further recommend that Auditor of State Bulletins 97-010 and 97-012 be reviewed which addresses various budgetary issues and how they should be treated.

FINDING NUMBER 2001-30135-003

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated. The Village's expenditures exceeded appropriations at year end for fiscal years 2000 and 2001 for the following funds and amounts:

<u>Fiscal Year End 2000</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Permissive Motor Vehicle License Tax Fund	\$15,350	\$17,850	(\$2,500)
Debt Service Fund	\$0	\$7,000	(\$7,000)
Water Operating Fund	\$153,870	\$158,935	(\$5,065)
Sewer Operating Fund	\$37,195	\$130,519	(\$93,324)
<u>Fiscal Year End 2001</u>			
Street Construction, Maintenance and Repair Fund	\$31,024	\$40,283	(\$9,259)
Water Operating Fund	\$140,516	\$205,920	(\$65,404)
Sewer Operating Fund	\$48,371	\$133,101	(\$84,818)

Failure to monitor budgetary variances can result in deficit spending and negative fund balances. We recommend that the Council Finance Committee monitor expenditures to appropriations throughout the year and make the necessary appropriation modifications, with Council approval, or reduce spending to avoid expenditures exceeding appropriations. We further recommend that Auditor of State Bulletins 97-010 and 97-012 be reviewed which addresses various budgetary issues and how they should be treated.

FINDING NUMBER 2001-30135-004

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 throughout the year in numerous line items at the legal level of control without council approval by resolution. We recommend that Council 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 approved by Council.

FINDING NUMBER 2001-30135-005

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states that 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. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

Should this requirement not be met, the section provides two exceptions which could prevent the contract from being void:

- A. Concerning contracts where the amount in question is \$1,000 or greater, the fiscal officer should present to the taxing authority of the subdivision or taxing unit a certificate stating that, at both the time the contract was made and at the time of the issuance of said certificate, a sufficient sum had been appropriated and was in the treasury or in the process of being collected and that money was free from any encumbrances. Within thirty days from the receipt of the certificate, the legislative authority may authorize a warrant for the payment of the amount due.
- B. Concerning amounts less than \$1,000, the fiscal officer must issue a certificate stating the same as in the first exception. However, the fiscal officer does not need to seek the approval of the legislative authority in order to authorize the payment of the contract.

This code section states that fiscal officers may prepare so-called "regular blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current fiscal year. The regular blanket certificates may, but need not, be limited to a specific vendor. Only one regular blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

In addition to regular blanket certificates, a subdivision's fiscal officer may also issue so-called "super blanket" certificates exceeding \$5,000 for expenditures and contracts from a specific line-item appropriation account in a specified fund 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 fiscal year. More than one super blanket certificate may be outstanding at one particular time for a particular line-item appropriation account.

The Village Clerk did not make the proper certification of funds for sixty-seven percent of the transactions tested during the audit period. We recommend that the Village Clerk certify all expenditures at the point when the contract is entered into or orders for goods or services are placed by Village officials. The certification can also be made through the use of "regular blanket", "then and now" or "super blanket" certificates.

FINDING NUMBER 2001-30135-006

Noncompliance Citation

Ohio Revised Code § 5705.14 states that except in the case of transfers from the general fund, transfers can be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members. In 2001 the Village Clerk transferred \$34,720 from the Sewer Operating fund to the Utility Improvement fund without an affirmative vote of two thirds of the members of the taxing authority. This required adjustments from the Utility Improvement fund to the Sewer Operating fund. The Clerk has made the adjustment and the adjustment is reflected in the financial statements.

FINDING NUMBER 2001-30135-007

Noncompliance Citation

Village of McClure, Sanitary Sewer System Mortgage Revenue Bonds Ordinance No. 539, Section 6, B (2) and (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.

The Village Council and Board of Public Affairs need to review this requirement and determine the manner they will fund it.

FINDING NUMBER 2001-30135-008

Noncompliance Citation

Village of McClure, Sanitary Sewer System Mortgage Revenue Bonds Ordinance No. 539, Section 9, states that Village records be audited biennially and an audit report be prepared and sent to the United States Department of Agriculture.

The Village has not sent the most recent audited financial statements and report to the United States Department of Agriculture.

We recommend the Village review the debt covenant requirements and submit the last audited biennial report to the United States Department of Agriculture.

FINDING NUMBER 2001-30135-009

Noncompliance Citation

Village of McClure, First Mortgage Waterworks System Revenue Bond Ordinance No. 253, establishes Sinking 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 Village has not established the Reserve Fund as required by Ordinance No. 253.

We recommend the Village establish the required fund and post the necessary amounts of monies into this fund towards the payment of the semiannual debt requirements.

FINDING NUMBER 2001-30135-010

Noncompliance Citation

Ohio Public Works Commission (OPWC) Loan Agreement, Article 2.2(b), states that the Village shall furnish to the Ohio Public Works Commission annual reports of the operations and income of the Utility together with an annual report of the account and operations of the Utility.

The Village has not sent any of the required reports to the Ohio Public Works Commission.

We recommend the Village contact the Ohio Public Works Commission to obtain the necessary reporting forms and file the required data with the Ohio Public Works Commission.

FINDING NUMBER 2001-30135-011

Material Weakness - Expenditures

We noted the following weaknesses when testing non payroll disbursements:

- Seven percent of the 60 vouchers tested did not have supporting documentation attached.
- Invoices were not consistently marked "paid" nor is there evidence of recalculation.
- Invoices were not marked indicating the related service or goods were received.
- Expenditures, as indicated in the aforementioned findings, were not posted to the correct fund or account requiring adjustments or reclassifications.
- Not all expenditures were approved by the Council or Board of Public Affairs (BPA) Expenditure approval list presented to Council and BPA is generated manually by the Clerk off of invoices.
- Blank checks are signed by the Council President after expenditure listing is approved by the Council or BPA.
- Sales taxes were paid on some expenditures.

To prevent the possible loss or diversion of cash assets and to ensure that the expense is for a proper public purpose, we recommend the following to increase accountability and control over expenditures:

- Payment should only be made off of original invoices instead of statements of accounts or copies of invoices.
- All invoices should be retained and attached to a copy of the voucher.
- Invoices should be recalculated and marked "paid" when expenditure is made.
- Invoices should be marked/initialed by a proper official indicating service or goods were received.
- The UAN Chart of Accounts should be reviewed to ensure expenditures are posted to the correct fund and accounts.
- The expenditure listing should be a copy of the check register. The check register, vouchers, invoices and checks should be presented at the meetings and approved at that time. Approval should be evidenced by Council and Board of Public Affairs members signing the register.
- Council President should sign the completed check at the Council meetings when the expenditures are approved.
- Tax identification numbers should be given to all vendors, the Clerk should verify during invoice recalculation that taxes are not being paid.

**VILLAGE OF McCLURE
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001 AND 2000**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid;
1999-30135-001	ORC 5705.41 (D)	No	Not corrected, reissued as finding 2001-30135-005.
1999-30135-002	OAC § 117-5-11 (C)	Yes	
1999-30135-003	McClure Ordinance 539 (6)(B), debt sinking funds	No	Not corrected, reissued as finding 2001-30135-007.
1999-30135-004	ORC § 5705.40	No	Not corrected, reissued as finding 2001-30135-004.
1999-30135-005	ORC § 5705.41 (B)	No	Not corrected, reissued as finding 2001-30135-003.
1999-30135-006	ORC § 5705.10, negative fund balances	No	Not corrected, reissued as finding 2001-30135 -001.
1999-30135-007	ORC § 5705.39	No	Not corrected, reissued as finding 2001-30135-002.
1999-30135-008	McClure Ordinance 516 (9), allocation of income tax funds	Yes	
1999-30135-009	ORC § 5705.10 misposting adjustments	Yes	
1999-30135-010	ORC § 5705.10 misposting adjustments	Yes	
1999-30135-011	AOS Bulletin 97-003, nonapproved advances	Yes	
1999-30135-012	ORC § 133, Debt issuance	Yes	
1999-30135-013	Income tax recalculation reportable condition	Yes	



STATE OF OHIO
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
SEPTEMBER 17, 2002**