



**VILLAGE OF HAMLER  
HENRY COUNTY**

**SINLGE AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2005**



**Auditor of State  
Betty Montgomery**



VILLAGE OF HAMLER  
HENRY COUNTY

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**Auditor of State  
Betty Montgomery**

Village of Hamler  
Henry County  
500 Hubbard Street  
P.O. Box 435  
Hamler, Ohio 43524-0435

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 a February 2, 2005, 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 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 "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

November 20, 2006

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Village of Hamler  
Henry County  
500 Hubbard Street  
P.O. Box 435  
Hamler, Ohio 43524-0435

To the Village Council:

We have audited the accompanying financial statements of the Village of Hamler, Henry County, (the Village) as of and for the year ended December 31, 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.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2005. Instead of the combined funds the accompanying financial statements present for 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, 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 year ended December 31, 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, or its changes in financial position or cash flows of its proprietary funds for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Hamler, Henry County, as of December 31, 2005, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2005. 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 November 20, 2006, 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.

We conducted our audit to opine on the financial statements that collectively comprise the Village's financial statements. The federal awards expenditures schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. We subjected the federal awards expenditures schedule to the auditing procedures applied in the audit of the financial statements. In our opinion, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

November 20, 2006

**VILLAGE OF HAMLER  
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, 2005**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$9,037			\$9,037
Municipal Income Tax	90,808			90,808
Intergovernmental Receipts	26,804	\$27,227		229,280
Fines, Licenses, and Permits	502			502
Earnings on Investments	4,049	671		4,720
Miscellaneous	20,672			20,672
	<u>151,872</u>	<u>27,898</u>		<u>355,019</u>
<b>Total Cash Receipts</b>				
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	30,734			30,734
Public Health Services	3,052			3,052
Leisure Time Activities	83			83
Basic Utility Services	1,240			1,240
Transportation	19,528	46,091		65,619
General Government	55,820			55,820
Debt Service:				
Principal Payments	18,474			18,474
Interest Payments	6,400			6,400
Capital Outlay	10,445		175,249	185,694
	<u>145,776</u>	<u>46,091</u>		<u>367,116</u>
<b>Total Cash Disbursements</b>				
Total Cash Receipts Over/(Under) Cash Disbursements	<u>6,096</u>	<u>(18,193)</u>		<u>(12,097)</u>
<b>Other Financing Uses:</b>				
Other Financing Uses	<u>(59,160)</u>			<u>(59,160)</u>
Excess of Cash Disbursements and Other Financing Uses				
Over Cash Receipts	(53,064)	(18,193)		(71,257)
Fund Cash Balances, January 1	<u>134,184</u>	<u>143,930</u>	<u>\$337</u>	<u>278,451</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$81,120</u></b>	<b><u>\$125,737</u></b>	<b><u>\$337</u></b>	<b><u>\$207,194</u></b>

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

**VILLAGE OF HAMLER  
HENRY COUNTY**

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

	<b>Enterprise</b>
<b>Operating Cash Receipts:</b>	
Charges for Services	\$143,096
<b>Operating Cash Disbursements:</b>	
Personal Services	37,018
Supplies and Materials	56,952
Capital Outlay	1,065,573
Other Revenue	1,620
Total Operating Cash Disbursements	1,161,163
Operating Loss	(1,018,067)
<b>Non-Operating Cash Receipts:</b>	
Intergovernmental Receipts	846,025
Proceeds from issue of Mortgage Revenue Bonds	1,915,000
Proceeds from OPWC Loan	52,800
Total Non-Operating Cash Receipts	2,813,825
<b>Non-Operating Cash Disbursements:</b>	
Debt Service	1,915,402
Net Cash Disbursements Over Cash Receipts	(119,644)
Fund Cash Balances, January 1	180,743
<b>Fund Cash Balances, December 31</b>	<b>\$61,099</b>

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

**VILLAGE OF HAMLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 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 Hamler, Henry County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water and sewer utilities, park operations, and police services. The Village appropriates general fund money to support a volunteer fire department.

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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis 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 adequately disclose material matters the Auditor of State prescribes.

**C. Cash and Investments**

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 trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

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

**VILLAGE OF HAMLER  
HENRY COUNTY**

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

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

**3. Debt Service Fund**

This fund accounts for resources the Village accumulates to pay bond and note 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 fund:

Capital Improvement Fund – This fund received State Issue II grant and loan monies for the construction and repairs of major capital projects.

**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:

Sanitary Sewer Fund - This fund receives charges for services and loan and grant revenue to cover costs for improving the sanitary sewer system and to cover sewer service operating costs.

**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. Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**2. Estimated Resources**

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

**3. Encumbrances**

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

A summary of 2005 budgetary activity appears in Note 3.

**VILLAGE OF HAMLER  
HENRY COUNTY**

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

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

**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 may be entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. RESTATEMENT OF FUND BALANCES**

The beginning balance of the Village's General Fund and Special Revenue Fund has been restated to properly report interest earned prior to January 1, 2005.

General Fund balance as previously reported, December 31, 2004	\$	130,825
Interest earned by the General Fund at December 31, 2004		3,359
General Fund balance as restated at January 1, 2005	\$	134,184
Special Revenue Funds balance as previously reported, December 31, 2004	\$	141,690
Interest earned by the Special Revenue Funds at December 31, 2004		2,240
Special Revenue Funds balance as restated at January 1, 2005	\$	143,930

**3. 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:

	2005
Demand deposits	\$131,017
Certificates of deposit	137,276
Total deposits	\$268,293

Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Village

**VILLAGE OF HAMLER  
HENRY COUNTY**

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

**4. BUDGETARY ACTIVITY**

Budgetary activity for the year ending December 31, 2005 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General		\$151,872	\$151,872
Special Revenue		27,898	27,898
Capital Projects		175,249	175,249
Enterprise		2,956,921	2,956,921
Total		\$3,311,940	\$3,311,940

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General		\$204,936	(\$204,936)
Special Revenue		46,091	(46,091)
Capital Projects		175,249	(175,249)
Enterprise		3,076,565	(3,076,565)
Total		\$3,502,841	(\$3,502,841)

For the year ended December 31, 2005, budgetary expenditures exceeded appropriation authority in all funds since contrary to Ohio Law, there were no appropriations certified by the County Budget Commission.

Contrary to Ohio Law, the Certificate of the Total Amounts from All Sources Available for Expenditures and Balances was not filed with the County Auditor in 2005.

Contrary to Ohio Law, the Village did not certify any of the expenditures at the time the commitment occurred.

For the year ended December 31, 2005, the Village did not appropriate and post \$228,049 of Ohio Public Works Commission (OPWC) funds spent on the Village's behalf.

**5. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

**VILLAGE OF HAMLER  
HENRY COUNTY**

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

**5. PROPERTY TAX – (Continued)**

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

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

**6. 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.

**7. DEBT**

Debt outstanding at December 31, 2005, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$43,169	1.90%
USDA Rural Development Loan	1,915,000	4.25%
Mortgage Loan	132,152	4.50%
Ohio Public Works Commission Loan CE12F	27,216	0.00%
Ohio Public Works Commission Loan GE28G	52,800	0.00%
Total	<u><u>\$2,170,337</u></u>	

The Ohio Water Development Authority (OWDA) loan relates to a sewer plant expansion project the Ohio Environmental Protection Agency mandated. The loan is to be repaid on by July 1, 2007, with an annual rate of 1.90%. The Village has paid off \$1,912,000 of this loan in 2005 with the proceeds from Mortgage Revenue Bonds from the United States Department of Agriculture (USDA).

The Mortgage Revenue Bonds are to be repaid on December 31, 2045, with an annual interest rate of 4.25%. The loan was received at the end of 2005 for a total of \$1,915,000. The loan will be repaid in annual installments.

The Mortgage loan relates to the Village purchasing land. The Mortgage loan is repaid over 12 year period at a rate of 4.5%. The annual payment of \$24,875 including interest payments will be made though 2012. The Mortgage Loan is collateralized by \$107,276 of Certificates of Deposits, held by the Hamler State Bank, and the Village's taxing authority.

The Ohio Public Works Commission (OPWC) Loan CE12F relates to water treatment plant modifications. The OPWC has approved \$34,020 in an interest free loan to the Village for this project. The loan will be repaid in semiannual installments of \$1,701 over 10 years.

**VILLAGE OF HAMLER  
HENRY COUNTY**

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

**7. DEBT – (Continued)**

The Ohio Public Works Commission (OPWC) Loan CE28G relates to the railroad street drainage improvement project. The OPWC has approved \$52,000 in an interest free loan to the Village for this project. The loan will be repaid in semiannual installments of \$1,320 over 20 years.

Amortization of the above debt, including interest, follows:

Year ending December 31:	OWDA Loan	USDA Mortgage Revenue Bonds	Mortgage Loan	OPWC Loan CE12F	OPWC Loan CE28G
2006	\$43,169	\$100,387	\$24,875	\$3,402	\$1,320
2007		100,580	24,875	3,402	2,640
2008		99,730	24,875	3,402	2,640
2009		100,880	24,875	3,402	2,640
2010		100,945	24,875	3,402	2,640
2011-2015		501,595	26,945	10,206	13,200
2016-2020		500,398			13,200
2021-2025		503,102			13,200
2026-2030		502,308			1,320
2031-2035		501,270			
2036-2040		502,653			
2041-2045		502,097			
Total	\$43,169	\$4,015,945	\$151,320	\$27,216	\$52,800

**8. RETIREMENT SYSTEM**

The Village's officials and employees (other than those contributing to Social Security) belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

**9. RISK MANAGEMENT**

**Risk Pool Membership**

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments ("Members").

VILLAGE OF HAMLER  
HENRY COUNTY

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

9. RISK MANAGEMENT – (Continued)

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

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

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

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31.

	<u>2005</u>	<u>2004</u>
Assets	\$8,219,430	\$6,685,522
Liabilities	<u>(2,748,639)</u>	<u>(2,227,808)</u>
Members' Equity	<u>\$5,470,791</u>	<u>\$4,457,714</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**VILLAGE OF HAMLER  
HENRY COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<b>Direct Assistance</b>		
Water and Waste Disposal Systems for Rural Communities Loan	10.760	\$ 343,885
Water and Waste Disposal Systems for Rural Communities Grant	10.760	501,174
<b>Total Federal Awards Expenditures</b>		<b>\$ 845,059</b>

The accompanying notes are an integral part of this schedule.

**VILLAGE OF HAMLER  
HENRY COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED DECEMBER 31, 2005**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the Village's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - MATCHING REQUIREMENTS**

Certain Federal programs require that the Village contribute non-Federal funds (matching funds) to support the Federally-funded program. The Village has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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**Auditor of State  
Betty Montgomery**

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

Village of Hamler  
Henry County  
500 Hubbard Street  
P.O. Box 435  
Hamler, Ohio 43524-0435

To the Village Council:

We have audited the financial statements of Village of Hamler, Henry County (the Village) as of and for the year ended December 31, 2005, and have issued our report thereon dated November 20, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-005 through 2005-007.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. We consider reportable condition 2005-005 listed above to be a material weakness. In a separate letter to the Village's management dated November 20, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-004. In a separate letter to the Village's management dated November 20, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, Village Council, Board of Public Affairs, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

November 20, 2006



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Village of Hamler  
Henry County  
500 Hubbard Street  
P.O. Box 435  
Hamler, Ohio 43524-0435

To the Village Council:

#### Compliance

We have audited the compliance of the Village of Hamler, Henry County (the Village) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended December 31, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the Village's major federal program. The Village's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

In our opinion, the Village of Hamler complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2005. However, in a separate letter to the Village's management dated November 20, 2006, we reported another matter related to Federal program noncompliance that was not required to be included in this report.

### **Internal Control Over Compliance**

The Village's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, Village Council, Board of Public Affairs, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

November 20, 2006

**VILLAGE OF HAMLER  
HENRY COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2005**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Adverse - GAAP Unqualified – Regulatory
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Water and Waste Disposal Systems for Rural Communities – CFDA # 10.760
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

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

### **FINDING NUMBER 2005-001**

#### **Noncompliance Citation**

Ohio Rev. Code § 5705.39 states that no appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate. When the appropriation does not exceed such official estimate, the county auditor shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure. Ohio Revised Code § 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

As the Village did not receive a certificate from the County Auditor for the appropriation measure for 2005 and as expenditures are limited by the appropriations established for each fund, none of the expenditures made by the Village in 2005 were within appropriations.

Failure to certify an appropriation measure or make expenditures within appropriations could result in overspending. The Village should obtain a certificate for appropriations from the County Auditor as required so that expenditures can be monitored and compliance with the Ohio Revised Code provisions can be attained. Expenditures should be limited to established appropriation limitations.

#### **Officials' Response**

We did not receive a response from Officials to this finding.

### **FINDING NUMBER 2005-002**

Ohio Rev. Code § 5705.36(A)(1) requires that on or about the first day of each fiscal year, the fiscal officer of each subdivision and other taxing unit shall certify to the county auditor the total amount from all sources available for expenditures from each fund in the tax budget along with any balances that existed at the end of the proceeding year.

There was no evidence that the Village filed their 2005 Certificate of the Total Amount from All Sources Available for Expenditures and Balance with the County Auditor. This resulted in the Village not receiving a certificate of estimated resources from the County Auditor in which to base their appropriations. We recommend that the Clerk-Treasurer file and Certificate of the Total Amount from All Sources Available for Expenditures and Balance with the County Auditor each year.

#### **Officials' Response**

We did not receive a response from Officials to this finding.

### **FINDING NUMBER 2005-003**

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

**FINDING NUMBER 2005-003  
(Continued)**

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

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

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

**2. Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

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

None of the transactions tested were certified by the Clerk-Treasurer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

**FINDING NUMBER 2005-003  
(Continued)**

We recommend the Clerk-Treasurer certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Clerk-Treasurer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Clerk-Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Officials' Response**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-004**

Chapter 5705 of the Revised Code sets forth a scheme that provides for a uniform budget and appropriation process in order to assure that a government entity expends no more than it expects to receive in revenue. In order to accomplish this end, all appropriations must be accounted for and from each appropriation fund. While federal and state loans and grants are deemed appropriated for such purposes and in the process of collection so as to be available for expenditure, they must still be recorded. That is, the "deemed appropriated" language merely restricts the purpose for which the taxing authority may appropriate the money and does not imply the taxing authority need not formally appropriate the money. R.C. 5705.42. Thus, a mechanism is still required to account for receipt and expenditure. That mechanism is an amendment of, or a supplement to, the entity's estimated resources, or its appropriation measure, which shall comply with all provisions of law governing the taxing authority in making the original appropriation. R.C. 5705.40. An original appropriation measure must be passed by the taxing authority, and any amendment of, or supplement to, that measure also requires legislative action. R.C. 5705.38.

In 2005, the Village was the beneficiary of \$228,049 of Issue II money sent directly to the vendor by the Ohio Public Works Commission (OPWC). This activity was not recorded in the Village's accounting ledgers. Since OPWC paid the invoices, the Village did not receive this cash. However, Auditor of State Bulletins 2000-008 and 2002-004 prescribe recording these transactions as receipts and disbursements when the Village applies for a project and when the Village is ultimately going to receive the benefit/ownership of the asset of the project. These funds were not appropriated causing expenditures to exceed appropriations in the Issue II Fund by \$175,249, and \$52,800 in the Enterprise Fund in 2005, contrary to R.C. 5705.41(B) which requires all expenditures to be appropriated. The accompanying financial statements were adjusted to reflect these amounts in a Capital Projects and Enterprise funds.

We recommend the Village follow the budgetary scheme of Chapter 5705 of the Revised Code and monitor appropriations, amending them as appropriate to record these funds. When the Village receives notice that it has been approved for funding by a State or Federal agency, it should review the reporting requirements established by Auditor of State Bulletins 2000-008 and 2002-004, create the required fund(s), certify the available resources to the County budget commission, amend its appropriations measure to account for the grant funds, and when notified that funds have been expended on its behalf, make memo entries to post the revenues and expenditures to the Village's books.

**Officials' Response**

We did not receive a response from Officials to this finding.

## FINDING NUMBER 2005-005

### Material Weakness

#### Utilities Processing

The following deficiencies were noted during testing of utilities:

- There is a lack of segregation of duties in the utilities department. The Utility Supervisor performs all duties related to utilities; the reading of the meters, processing of utility billings, adjusting accounts and collection of deposit and hook up fees. There is a lack of monitoring by the Board of Public Affairs (BPA) or Council to compensate for this weakness.
- Old customer balances (delinquent accounts) are maintained within new customer account balances for the same address. The Utility Supervisor will then manually prepare two billing stubs for the same account to reflect the current bill for new customer and the delinquent bill for old customer, which is mailed to the old customer's new address.
- The incorrect rate was charged to the two sewer only customers which resulted in under billings of \$24 in 2005.
- Penalties are not being consistently applied to accounts that pay after due date. This appears to be a result of running the *Calculate Penalties* report after delinquent payments are recorded in the system. It is estimated that approximately 200 monthly billings out of a total approximation of 3,400 monthly billings were not assessed penalties. Conversely, penalties sometimes appear incorrectly applied to accounts even though payment has been received by the due date. This appears to be a result of running the *Calculate Penalties* report before payments are recorded in the system. It is estimated that approximately 250 monthly billings out of a total approximation of 3,400 monthly billings were incorrectly assessed penalties.
- Utility services were not discontinued on accounts delinquent for thirty days or more after due date as required by Council Ordinance.
- There is no reconciliation between the revenue ledger and the utility subsidiary ledger.
- Review of utility billing register is not performed before bills are printed contributing to numerous manual changes written on utility stubs.
- Deposit fees are commingled within Utility activity; a Utility Deposit fund has not been established. Customer accounts are not being marked or flagged in the Utility System to indicate that a deposit payment has been made. Deposit forms do not include date paid, payment method or deposit date. Prenumbered duplicate receipts are not issued to customers. Council Ordinance establishing a deposit fee is silent on how to refund, disburse or apply deposits.

**FINDING NUMBER 2005-005  
(Continued)**

The lack of segregation of duties and other weaknesses identified could result in fraud not being detected in a timely manner, inaccurate posting of revenues to the Water and Sewer Funds and loss of revenue due to failure to assess penalties. To ensure the accountability of utility revenues and detect the loss or diversion of utility revenues, we recommend the following:

- A policy should be established by the Board of Public Affairs (BPA) requiring approval of adjustments to accounts over an established amount prior to the adjustment being made. On a periodic basis the BPA should review all adjustments made to accounts. All adjustments should have supporting documentation attached explaining the reason of the adjustment

If determined efficient and economical, the BPA should consider hiring a part time employee or shifting certain duties to other employees to allow for segregating of duties.

BPA should monitor utility activity. Examples might include comparing monthly water and sewer receipts to previous years' or comparing water consumption to utility receipts.

- Old customer account (delinquent) balances need to be accounted for in a manner that allows for them to be permanently excluded from current customer account balances and tracked separately.
- The Utility Supervisor should change the rate charged to the two sewer only customers to agree to rates established by Council Ordinance.
- The *Calculate Penalties* report should be run prior to the recording of any delinquent receipts to the system. *Utility Receipt Reports* generated for payments received after the due date should be reviewed to ensure penalties are being assessed.
- The Utility Supervisor should discontinue service on accounts delinquent for thirty days of more after due date as required by Council Ordinance.
- Reconciliation should be performed between the revenue ledger and a month end utility subsidiary ledger. Reconciling items or differences should be documented, investigated and resolved. This reconciliation should then be presented to BPA, and Finance or Audit Committee for review and approval. This action should be denoted in the Council's minutes.
- The billing register should be reviewed for unusual billing amounts prior to printing the utility bills. Incorrect billing amounts should be corrected prior to printing out the utility bills stubs.
- A Utility Deposit fund should be established to record utility deposits. Management should review current records to determine existing deposits on hand and transfer these monies to the Utility Deposit fund. The Village should then begin to record deposit activity with in this fund.
- A Deposit Report (system generated) should be updated timely. This report should be reconciled to the Utility Deposit fund periodically. This report along with the reconciliation should be presented to the BPA for review. Such review should be denoted in the minutes.

Utility deposit forms should include payment method, date paid, date deposited, and receipt number. Prenumbered duplicate receipt should be issued to customer. Customers account should be flagged in the utility billing system that a deposit has been paid.

**FINDING NUMBER 2005-005  
(Continued)**

The Council Ordinance establishing utility deposit fee should also include the method for disbursing deposits (how and when to refund to customer or to apply to delinquent accounts, required approval.).

**Officials' Response**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-006**

**Reportable Condition**

**Debt Service Activity**

The Village has entered into various loan agreements with The Hamler State Bank, Ohio Public Works Commission, Ohio Water Development Authority and United States Department of Agriculture. Receipts and payments related to these loans should be recorded as loan proceeds and as principal or interest expenditures/expense on the Village accounting records and annual report.

The Village recorded loan proceeds as charges for services in the Sewer Fund for \$1,915,000. Debt payments were recorded as general government expenditures in the General Fund for \$24,874, as supplies and material expense in the Water Fund for \$3,402, and as Capital Outlay in the Sewer Fund for \$1,912,000.

Failure to properly record debt activity misstates financial statements and does not provide management with accurate monthly summary reports to monitor. The financial statements were adjusted to properly reflect debt activity.

We recommend the Clerk-Treasurer establish accounts within the accounting system specific for loan proceeds, principal payment and interest payments. The Clerk-Treasurer should then post debt activity to these accounts. The annual report prepared by the Clerk-Treasurer should reflect these account totals as loan proceeds and principal and interest expenditures/expense in the respective funds.

**Officials' Response**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2005-007**

**Reportable Condition**

**Monitoring of Financial Activity**

The Village of Hamler's staff does not have an adequate segregation of duties; the Clerk-Treasurer performs all the accounting functions. It is therefore important Village Council monitors financial activity closely. While the Village Council does review all expenditures, there is no documentation of the extent to which Council uses other financial information to monitor the financial activity. The Village Council should review bank reconciliations, receipts ledgers, expenditure ledgers, investment schedule, income tax reports, utility reports and budgetary reports. This information also provides important data necessary to manage the Village of Hamler. This information can also help answer questions such as the following:

Inquiries Relevant to Overall Village of Hamler Operations:

- Are receipts sufficient to cover expenditures?
- Are expenditures in line with prior year costs?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted?
- Are anticipated receipts being received in a timely manner?
- Is the Village of Hamler maximizing its return on cash investments?

**Officials' Response**

We did not receive a response from Officials to this finding.

**3. FINDINGS FOR FEDERAL AWARDS**

None

**VILLAGE OF HAMLER  
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	ORC 5705.41(B) Expenditures exceeding appropriations	No	Repeated as Finding 2005-001
2004-002	ORC 5705.41(D) – Failure to certify expenditures	No	Repeated as Finding 2005-003
2004-003	Material Weakness - Utilities Processing	No	Partially Corrected. Repeated as Finding 2005 – 005.





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**VILLAGE OF HAMLER**

**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  
DECEMBER 14, 2006**