



**VILLAGE OF MCCLURE  
HENRY COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**



**Auditor of State  
Betty Montgomery**



VILLAGE OF MCCLURE  
HENRY COUNTY

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**Auditor of State  
Betty Montgomery**

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

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to 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 black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

November 22, 2006

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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, Henry County, (the Village) as of and for the years ended December 31, 2005 and 2004. 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient evidential matter to document completeness of the charges for services revenue reported for the Water and Sewer Funds in 2005. Those activities represent 94 percent of the total revenue of the Enterprise Fund Type in 2005.

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.

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Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. 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 years ended December 31, 2005 and 2004, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidential matter for the Water and Sewer Enterprise Funds, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of McClure, Henry County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years 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 years ended December 31, 2005 and 2004. 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 22, 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.



**Betty Montgomery**  
Auditor of State

November 22, 2006

**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, 2005**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$25,015	\$4,843		\$29,858
Municipal Income Tax	86,442			86,442
Intergovernmental Receipts	33,029	32,843	\$127,947	193,819
Charges for Services	2,432			2,432
Fines, Licenses, and Permits	698			698
Earnings on Investments	1,000			1,000
Miscellaneous	1,418			1,418
	<u>150,034</u>	<u>37,686</u>	<u>127,947</u>	<u>315,667</u>
<b>Total Cash Receipts</b>				
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	16,591			16,591
Leisure Time Activities	1,089			1,089
Transportation		34,342		34,342
General Government	69,727			69,727
Capital Outlay			145,565	145,565
	<u>87,407</u>	<u>34,342</u>	<u>145,565</u>	<u>267,314</u>
<b>Total Cash Disbursements</b>				
<b>Total Cash Receipts Over/(Under) Cash Disbursements</b>	<u>62,627</u>	<u>3,344</u>	<u>(17,618)</u>	<u>48,353</u>
<b>Other Financing Receipts and (Disbursements):</b>				
Other Debt Proceeds			17,618	17,618
Transfers-In		17,287	8,645	25,932
Transfers-Out	(39,302)			(39,302)
	<u>(39,302)</u>	<u>17,287</u>	<u>26,263</u>	<u>4,248</u>
<b>Total Other Financing Receipts and (Disbursements)</b>				
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	23,325	20,631	8,645	52,601
Fund Cash Balances, January 1	61,102	95,482	32,249	188,833
<b>Fund Cash Balances, December 31</b>	<u><u>\$84,427</u></u>	<u><u>\$116,113</u></u>	<u><u>\$40,894</u></u>	<u><u>\$241,434</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 - PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Proprietary Fund Type</b>
	<b>Enterprise</b>
<b>Operating Cash Receipts:</b>	
Charges for Services	\$288,855
Fines, Licenses and Permits	5,377
Total Operating Cash Receipts	294,232
<b>Operating Cash Disbursements:</b>	
Personal Services	69,014
Fringe Benefits	22,535
Contractual Services	30,066
Supplies and Materials	60,971
Total Operating Cash Disbursements	182,586
Operating Income	111,646
<b>Non-Operating Cash Disbursements:</b>	
Capital Outlay	26,339
Debt Service	37,717
Other Non-Operating Cash Disbursements	74,856
Total Non-Operating Cash Disbursements	138,912
Excess of Cash Disbursements Over Cash Receipts Before Interfund Transfers	(27,266)
Transfers-In	13,370
Net Cash Disbursements Over Cash Receipts	(13,896)
Fund Cash Balances, January 1	116,668
<b>Fund Cash Balances, December 31</b>	<b>\$102,772</b>
<b>Reserves for Encumbrances, December 31</b>	<b>\$5,734</b>

*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, 2004**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$24,508	\$6,691		\$31,199
Municipal Income Tax	71,355			71,355
Intergovernmental Receipts	41,980	29,544	\$12,385	83,909
Charges for Services	484			484
Fines, Licenses, and Permits	460			460
Earnings on Investments	501			501
Miscellaneous	1,739			1,739
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	141,027	36,235	12,385	189,647
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	10,631			10,631
Leisure Time Activities	1,017			1,017
Transportation		9,650		9,650
General Government	74,860			74,860
Capital Outlay			12,385	12,385
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	86,508	9,650	12,385	108,543
Total Cash Receipts Over Cash Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	54,519	26,585		81,104
<b>Other Financing Receipts and (Disbursements):</b>				
Other Financing Sources		116		116
Transfers-In		13,903	6,952	20,855
Other Financing Uses	(776)			(776)
Transfers-Out	(39,563)			(39,563)
Advances-Out	(11,000)			(11,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts and (Disbursements)	(51,339)	14,019	6,952	(30,368)
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	3,180	40,604	6,952	50,736
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>	<hr/>
	57,922	54,878	25,297	138,097
<b>Fund Cash Balances, December 31</b>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	<b>\$61,102</b>	<b>\$95,482</b>	<b>\$32,249</b>	<b>\$188,833</b>
<b>Reserves for Encumbrances, December 31</b>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
		<b>\$761</b>		<b>\$761</b>

*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, 2004**

	<b>Proprietary Fund Type</b>
	<b>Enterprise</b>
<b>Operating Cash Receipts:</b>	
Charges for Services	\$285,395
Fines, Licenses and Permits	5,831
Total Operating Cash Receipts	291,226
<b>Operating Cash Disbursements:</b>	
Personal Services	68,505
Fringe Benefits	19,963
Contractual Services	35,790
Supplies and Materials	60,374
Other	200
Total Operating Cash Disbursements	184,832
Operating Income	106,394
<b>Non-Operating Cash Disbursements:</b>	
Redemption of Principal	34,914
Interest and Other Fiscal Charges	76,567
Total Non-Operating Cash Disbursements	111,481
Excess of Cash Disbursements Over Cash Receipts Before Interfund Transfers and Advances	(5,087)
Transfers-In	53,408
Advances-In	11,000
Transfers-Out	(34,700)
Net Cash Receipts Over Cash Disbursements	24,621
Fund Cash Balances, January 1	92,047
<b>Fund Cash Balances, December 31</b>	<b>\$116,668</b>

*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, 2005 AND 2004**

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

The Village values certificates of deposit at cost.

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

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

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

**VILLAGE OF MCCLURE  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

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

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

**3. 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:

OPWC Fund – This fund received a grant from the State of Ohio to improve the Water Treatment Plant.

**4. 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 Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

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

**VILLAGE OF MCCLURE  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

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

**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. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

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

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

**G. Accumulated Leave**

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

**2. EQUITY IN POOLED CASH**

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

	2005	2004
Demand deposits	\$318,376	\$280,141
Certificates of deposit	25,830	25,360
Total deposits	\$344,206	\$305,501

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$129,052	\$150,034	\$20,982
Special Revenue	42,134	54,973	12,839
Capital Projects	6,000	154,210	148,210
Enterprise	287,400	307,602	20,202
Total	\$464,586	\$666,819	\$202,233

**VILLAGE OF MCCLURE  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**3. BUDGETARY ACTIVITY – (Continued)**

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$151,720	\$126,709	\$25,011
Special Revenue	111,911	34,342	77,569
Capital Projects		145,565	(145,565)
Enterprise	292,411	327,232	(34,821)
Total	<u>\$556,042</u>	<u>\$633,848</u>	<u>(\$77,806)</u>

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$129,052	\$141,027	\$11,975
Special Revenue	42,134	50,254	8,120
Capital Projects	6,000	19,337	13,337
Enterprise	287,400	344,634	57,234
Total	<u>\$464,586</u>	<u>\$555,252</u>	<u>\$90,666</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$114,000	\$126,847	(\$12,847)
Special Revenue	38,002	10,411	27,591
Capital Projects		12,385	(12,385)
Enterprise	273,273	331,013	(57,740)
Total	<u>\$425,275</u>	<u>\$480,656</u>	<u>(\$55,381)</u>

At December 31, 2005, the Water Operating and Sewer Operating Funds had negative fund balances of \$10,276 and \$21,235, respectively. At December 31, 2004 the Sewer Operating Fund had a negative fund balance of \$29,311. Management does not currently have a plan in place to address these negative fund balances.

Eighty-seven percent of the expenditures tested were not certified as required.

At December 31, 2005, appropriations exceeded estimated resources in the Street Construction, Maintenance and Repair, State Highway, and Water Operating Funds by \$15,854, \$11,291, and \$21,635, respectively. At December 31, 2004, appropriations exceeded estimated resources in the Utility Improvement Fund by \$40,100.

**VILLAGE OF MCCLURE  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**3. BUDGETARY ACTIVITY – (Continued)**

At December 31, 2005, expenditures exceeded appropriations in the Ohio Public Works Commission, Water Operating, and Sewer Operating Funds by \$145,565, \$34,624 and \$71,463, respectively. At December 31, 2004, expenditures exceeded appropriations in the General, Ohio Public Works Commission, Water Operating and Sewer Operating Funds by \$23,847, \$12,385, \$18,814, and \$81,026, respectively.

**4. 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.

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.

**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, 2005 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sanitary Sewer Mortgage Revenue Bonds	\$1,147,600	5.125%
First Mortgage Waterworks Revenue Bonds	214,000	5%
Ohio Public Works Commission Loan	89,884	4%
Ohio Public Works Commission Loan	16,737	0%
Total	<u>\$1,468,221</u>	

The Village issued Sanitary Sewer Mortgage Revenue Bonds for the construction of a wastewater treatment facility. The bonds are payable over 40 years.

**VILLAGE OF MCCLURE  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**6. DEBT – (Continued)**

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

The Village entered into a loan with the Ohio Public Works Commission for Wastewater Facilities Construction in 1998.

The Village entered into a loan with the Ohio Public Works Commission for Water Treatment Plant Improvements in 2005.

Amortization of the above debt, including interest, follows:

Year ending December 31:	Sanitary Sewer Mortgage Revenue Bonds	First Mortgage Waterworks Revenue Bonds	Ohio Public Works Commission Sewer Loan	Ohio Public Works Commission Water Loan
2006	\$74,615	\$27,700	\$9,505	\$1,762
2007	74,705	27,850	9,504	1,762
2008	74,649	27,950	9,505	1,762
2009	74,652	28,000	9,504	1,762
2010	74,709	28,000	9,505	1,762
2011-2015	373,386	137,350	47,523	7,927
2016-2020	373,365		19,008	
2021-2025	373,447			
2026-2030	373,359			
2031-2035	373,392			
2036-2040	74,637			
Total	\$2,314,916	\$276,850	\$114,054	\$16,737

**7. DEBT COVENANT VIOLATIONS**

The Village has not established the water sinking fund or obtained adequate bond coverage as required by Village ordinances authorizing the issuance of the mortgage revenue bonds. Also, the Village has not set utility rates sufficient to operate and maintain the water and sewer systems and pay debt principal and interest as required by Village ordinances authorizing the issuance of mortgage revenue bonds and by the Ohio Public Works Commission loan agreement. The requirements of submitting financial information to the Ohio Public Works Commission and the Rural Development of the U.S. Department of Agriculture was not performed contrary to the loan agreements.

**VILLAGE OF MCCLURE  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**8. RETIREMENT SYSTEM**

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

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, 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**

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

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

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

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

**VILLAGE OF MCCLURE  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**9. RISK MANAGEMENT – (Continued)**

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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

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

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004.

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$29,719,675	\$27,437,169
Liabilities	<u>(15,994,168)</u>	<u>(13,880,038)</u>
Retained earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>
<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$4,443,332	\$3,648,272
Liabilities	<u>(1,068,245)</u>	<u>(540,073)</u>
Retained earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

**VILLAGE OF MCCLURE  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**9. RISK MANAGEMENT – (Continued)**

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The Village's share of these unpaid claims is approximately \$21,902.

**10. SUBSEQUENT EVENTS**

The Village purchased a building, in August of 2006, for the purpose of housing the Village administrative offices. A 20 year loan was taken out in the amount of \$114,200 at a rate of 5.5%. The Village is to make monthly payments of \$787.11 for 240 months starting in October of 2006.

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

To the Village Council:

We have audited the financial statements of the Village of McClure, Henry County (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated November 22, 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 also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We qualified our report on the 2005 Enterprise Fund Type because we were unable to obtain sufficient evidential matter to support the completeness of charges for services revenue reported for the Water and Sewer Funds in 2005. Except as discussed in the preceding sentence, 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.

**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 2005-009 and 2005-014 through 2005-017.

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 conditions 2005-009 and 2005-014 through 2005-016 listed above to be material weaknesses. In a separate letter to the Village's management dated November 22, 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 we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2005-001 through 2005-013. In a separate letter to the Village's management dated November 22, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and Village Council. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

November 22, 2006

**VILLAGE OF MCCLURE  
HENRY COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-001**

**Noncompliance Citation**

Village of McClure, Sanitary Sewer System Mortgage Revenue Bonds Ordinance No. 539, Section 6, B (2) and Village of McClure, First Mortgage Waterworks System Revenue Bond Ordinance No. 253, establish Sinking Funds and the amounts to be set aside within the fund for the sewer and water related debt. 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 a Water Sinking Fund as required by the Ordinance, which is contrary to the debt covenant. There was no activity in the Sewer Sinking Fund during 2004 or 2005 even though there was sewer system debt retired each year.

By not establishing the required fund or setting aside the monies as stated in the Ordinances, the Village may not have funds available to meet a future debt payment if adequate revenues are not generated.

We recommend the Village Council and Board of Public Affairs (BPA) establish the required fund and post the required amounts of money into the funds towards the payment of the semiannual debt requirements.

**Officials' Response**

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

**FINDING NUMBER 2005-002**

**Noncompliance Citation**

Village of McClure, Sanitary Sewer System Mortgage Revenue Bonds Ordinance No. 539, Section 6 states that Village shall execute and keep in force a fidelity bond in an amount approved by the appropriate official of the United States of America, and the United States of America and the Village shall be named as co-obligee in such bond. The amount shall not be reduced without the prior written consent of the appropriate official of the United States of America. The United States Department of Agricultural Rural Development (USDA) office has set the bond at an amount equal to the yearly debt payment due the USDA, which is \$75,000.

The Village currently has public official and surety bonds that total \$50,000. The Village is only named on said bonds.

The Village Council should review this requirement and obtain the necessary amounts to be bonded and to name the United States of America as a co-obligee.

**Officials' Response**

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

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

#### **Noncompliance Citation**

Village of McClure, Sanitary Sewer System Mortgage Revenue Bonds Ordinance No. 539, Section 8 states that the Village will fix rates and charges in an amount sufficient to pay the cost of operating and maintaining the Sewer System and to provide an amount of revenues adequate for the payment of principal and interest, debt service reserve and sinking fund requirements, replacements and improvement requirements. Ohio Public Works Commission (OPWC) Loan Agreement, Article 2.2(a) states that the Village shall charge rates, fees, charges or taxes in amounts to meet operation, maintenance and all expenses of the Sewer Utility and the payment of amounts required by the loan.

The Village Sanitary Sewer fund has a negative fund balance of \$21,235 as of December 31, 2005 and no monies have been deposited in its Sewer Sinking Fund as required.

The Village Council and BPA should consider the accumulated December 31, 2005 deficit balance and the various requirements to meet future operating, maintenance and debt service requirements to ensure that the present rate structure is at an appropriate level to meet future spending.

#### **Officials' Response**

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

### **FINDING NUMBER 2005-004**

#### **Noncompliance Citation**

Village of McClure, First Mortgage System Revenue Bond states the Village will fix rates and charges in an amount sufficient to promptly pay all expenses incident to the operation of the system, and for payment of principal and interest on the bonds.

The Village Water fund has a negative fund balance of \$10,276 as of December 31, 2005 and no monies have been deposited in a Waterworks Sinking Fund as required.

The Village Council and BPA should consider the accumulated December 31, 2005 deficit balance and the various requirements to meet future operating, maintenance and debt service requirements to ensure that the present rate structure is at an appropriate level to meet future spending.

#### **Officials' Response**

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

### **FINDING NUMBER 2005-005**

#### **Noncompliance Citation**

7 CFR 1780.47(f)(2)(ii) states that annual management reports, prior to the beginning of each fiscal year will be submitted to the USDA processing office. Financial information may be reported on Form RD 442-2 which includes Schedule 1, "Statement of Budget, Income and Equity: and Schedule 2, "Projected Cash Flow" or information in similar format. The management report requirement is in relation to the Sanitary Sewer loan that was obtained from the USDA in 1996.

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

The Village did not prepare and submit Form RD 442-2 (the Form) for fiscal year 2005 or 2006.

We recommend that the management of the Village request training or assistance from the Rural Development Office in the completion of this Form.

**Officials' Response**

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

**FINDING NUMBER 2005-006**

**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.

**Officials' Response**

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

**FINDING NUMBER 2005-007**

**Noncompliance Citation**

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 purpose 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.

**FINDING NUMBER 2005-007  
(Continued)**

In 2005 and 2004, the Village was the beneficiary of \$145,565 and \$8,843, respectively, of Ohio Public Works Commission (OPWC) monies sent directly to the vendor by OPWC. This activity was not recorded on the Village's 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. The accompanying financial statements were adjusted to reflect these amounts in a Capital Projects fund. These funds were not appropriated causing expenditures to exceed appropriations in the Capital Project Fund by \$145,565 and \$8,843 in 2005 and 2004, respectively, contrary to R.C. 5705.41(B) which requires all expenditures to be appropriated.

We recommend the Village record all benefits received from state or federal grants as a memo receipt and expenditure on the Village's records and appropriate funds for the expenditure(s). In addition, Village management should review Auditor of State Bulletins 2000-008 and 2002-004.

**Officials' Response**

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

**FINDING NUMBER 2005-008**

**Noncompliance Citation**

Ohio Revised Code § 5705.10 requires that all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made. Furthermore, this code section requires that all revenue derived from a source other than general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

In fiscal year 2005 and 2004, \$5,424 and \$5,898, respectively, in state license tax receipts were incorrectly posted to the Permissive License Tax Fund that should have been credited to the Street Construction, Maintenance and Repair Fund. Only local license tax receipts get posted to the Permissive License Tax Fund.

This resulted in a misstatement of financial activity in the respective funds. Improper reporting of revenue could cause management to draw inaccurate conclusions regarding its fiscal position. Management has included audit adjustments in the accompanying financial statements to correctly post these revenues in the Street Construction, Maintenance and Repair Fund.

Financial activity should be properly reported in the accounting ledgers so that management can better assess whether or not financial goals are being met on an ongoing basis. As part of the monitoring process, management should review its records to make sure that all amounts are properly reflected in the appropriate funds.

**FINDING NUMBER 2005-008  
 (Continued)**

Furthermore, Ohio Revised Code § 5705.10 states money paid into any fund shall be used only for the purposes for which the fund was established. The existence of a deficit balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance. The following funds had negative fund balances at year end:

	December 31, 2005	Variance
Water Operating Fund		\$ (10,276)
Sewer Operating Fund		(21,235)
	December 31, 2004	Variance
Sewer Operating Fund		\$ (29,311)

We recommend Council and the Board of Public Affairs monitor these funds closely throughout the year, restrict expenditures and/or pay for sewer utility improvements from the utility improvement fund instead of the sewer operating fund, amend the water deposit ordinance so that monies in the water deposit fund can be applied to delinquent balances, and pursue payment on delinquent accounts.

**Officials' Response**

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

**FINDING NUMBER 2005-009**

**Noncompliance Citation and Material Weakness**

Codified Ordinances of the Village of McClure, Chapter 925.02(f) states any person seeking to obtain water services shall make an application with the Village. If granted, such person shall deposit \$100 if such person is the owner of the structure or property to be serviced, or \$100 if such person is the renter or lessee of the structure or property to be serviced. The deposit shall be credited to the person's account upon twelve months of timely payment of all water and sewer charges.

The Village has a Water Deposit Fund for water deposits collected from its customers. This fund had a balance of \$18,344 at December 31, 2004. During 2005, the Village moved \$17,000 of this balance to the Water Fund. The Village Water Fund received these monies with no corresponding credits to customer accounts. These monies are due the customer accounts per the village ordinance, and should be placed in the Water Fund only upon posting a credit to customer accounts in lieu of billing/collecting \$100 from those customers who qualify for the credit.

We recommend the Village follow the Ordinance, review customer accounts to find those qualifying as timely, credit the timely accounts their \$100, and then move the deposit monies due the customers to the Water Fund. The financial statements have been adjusted to delete the transaction moving the \$17,000 from the Water Deposit Fund to the Water Fund in 2005. We also recommend the Village review its Water Deposit Fund on the UAN system for prior years. It appears that receipts posted to the fund indicate the customers' names. This should provide the information necessary to produce a listing of customer accounts included in the \$18,344 Water Deposit Fund Balance. This listing should be retained and kept current by updating periodically.

**Officials' Response**

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

## FINDING NUMBER 2005-010

### Noncompliance Citation

Village Resolution 437 requires that income tax monies be disbursed as follows: 70% to the general fund, 20% to the street fund and 10% to the construction fund.

The income tax monies are deposited in the general fund. The Village transferred the required 20% and 10% to the SCMR and Capital Project Funds, respectively, in 2004. However, only 10% was transferred to the SCMR fund and 5% to the Capital Project Fund in 2005. The 2005 financial statements have been adjusted to show disbursements at the correct percentages.

The Village should follow their resolution on the disbursement of income tax revenues and transfer the correct amounts annually.

### Officials' Response

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

## FINDING NUMBER 2005-011

### Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) states no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract 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 encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

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 Board can authorize the drawing of a warrant for the payment of the amount due. The Village Council 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 Council.

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.

**FINDING NUMBER 2005-011  
 (Continued)**

3. **Super Blanket Certificate** – The Village Council 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.

Eighty-seven percent of the transactions tested were not certified by the Fiscal Officer 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.

Certification is not only required by Ohio law but is a key control in the disbursements process to help assure purchase commitments receive prior approval, and to help reduce the possibility of Village funds being over expended or exceeding budgetary spending limitations as set by the Village Council.

To improve controls over disbursements, we recommend all Village disbursements receive prior certification of the Fiscal Officer, and the Village Council members periodically review the expenditures made to ensure they are within the appropriations adopted by the Village Council members, certified by the Fiscal Officer, and recorded against appropriations.

**Officials' Response**

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

**FINDING NUMBER 2005-012**

**Noncompliance Citation**

Ohio Revised Code § 5705.39 provides that the total appropriations from each fund shall not exceed the total of the estimated resources available for expenditures from that fund as certified by the budget commission in the certificate of estimated resources. 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 2004 or 2005. Also, appropriations exceeded estimated resources certified as available by the budget commission in the following funds at year end:

December 31, 2005	Estimated Resources	Appropriations	Variance
Street Construction, Maintenance and Repair Fund	\$ 34,596	\$ 50,450	\$ (15,854)
State Highway Fund	19,059	30,350	(11,291)
Water Operating Fund	144,492	166,127	(21,635)
<hr/>			
December 31, 2004			
Utility Improvement Fund	34,900	75,000	(40,100)

**FINDING NUMBER 2005-012  
 (Continued)**

Failure to monitor budgetary variances can result in deficit spending and negative fund balances. The Fiscal Officer should be posting budgeted figures from the approved appropriations and estimated certificates. This will give the Village Council accurate budgetary information for monitoring. They can then modify appropriations and estimated resources as needed. We recommend the Village Council monitor estimated resources and appropriations. We also recommend the Fiscal Officer request that the county auditor provide the mentioned certification for any Village Council approved appropriations (original or amended).

**Officials' Response**

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

**FINDING NUMBER 2005-013**

**Noncompliance Citation**

Ohio Revised Code § 5705.41(B) states no subdivision shall make any expenditure unless it has been appropriated as provided in such chapter.

The following funds were found to have expenditures in excess of appropriations at year end:

December 31, 2005	Amount Appropriated	Amount Expended	Amount of Expenditures over Appropriations
OPWC Fund		\$ 145,565	\$ (145,565)
Water Operating Fund	\$ 166,127	200,751	(34,624)
Sewer Operating Fund	49,284	120,747	(71,463)
<hr/>			
December 31, 2004			
General Fund	\$ 114,000	\$ 137,847	\$ (23,847)
OPWC Fund		12,385	(12,385)
Water Operating Fund	144,489	163,303	(18,814)
Sewer Operating Fund	51,784	132,810	(81,026)

The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request Village Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**Officials' Response**

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

## FINDING NUMBER 2005-014

### Material Weakness - Monitoring Village Financial Activity

The small size of the Village's staff does not allow for an adequate segregation of duties; the Fiscal Officer must perform all accounting functions. It is therefore important that Village Council and the finance committee monitor financial activity closely. The following deficiencies were noted during the audit:

- The only indication noted of any reviews or approvals by Village Council or the finance committee was the listing of vouchers which is signed by the Village Council.
- The Village funds have not reconciled to bank account balances during the audit period. The deposit in-transit amount was used as the adjusting transaction on the reconciliation to balance the fund balances to the bank, and did not represent deposits in transit. There was no evidence that Village Council or Finance Committee reviewed any reconciliation.
- At December 31, 2003 (end date of the prior period), the Water Operating Fund and Sewer Operating Fund had deficit fund balances of (\$18,708) and (\$57,327), respectively. These deficit balances continued throughout the audit period. The Village posted several transactions incorrectly to try and correct the deficit balances. The financial statements have been adjusted to show those transactions correctly, which results in showing the funds at their actual deficit balances at December 31, 2005, of (\$10,276) in the Water Operating Fund and (\$21,235) in the Sewer Operating Fund.

These deficiencies resulted in numerous audit adjustments to the financial statements. In addition Village Council is not provided accurate information in order to make informed decisions. To ensure that the financial position of the funds presented to Village Council are accurate we recommend that:

- The financial reports packet provided to the Finance Committee should be reviewed and a copy of the reports retained with the Finance Committee with signatures on the report packet indicating that a review was completed. The following reports should be included in the packet: monthly cash journal, monthly cash summary report by fund, monthly expenditure journal, monthly fund journal (which shows debit/expenditure and credit/revenue entries and checking and investment balances), monthly investment journal and monthly revenue journal and listing of vouchers, monthly budget to actual statements and bank reconciliations.
- The bank reconciliations should be occasionally re-performed and reconciled to bank statements by Village Council or finance committee. This re-performance would consist of verifying the accuracy of the adjustments to the bank balance (i.e. outstanding checks, deposits in transit) to the fund balances.
- The audited December 31, 2005, funds are negative for the Water Operating and Sewer Operating funds in the amounts of (\$10,276) and (\$21,235), respectively. Council needs to monitor these funds closely and pursue a course of action to correct these deficit balances.

### Officials' Response

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

### **FINDING NUMBER 2005-015**

#### **Material Weakness – Cash Reconciliation Process**

The Village is on the UAN system. We noted the following errors and weaknesses while testing year end cash reconciliations:

- The UAN Investment Account balances were not updated and did not reconcile to the monthly bank statements for 2005 and 2004.
- The monthly reconciliations had unexplained variances which were posted as a deposit in transit or other adjusting factor on the monthly reconciliations during 2005 and 2004. This method was used to balance the UAN system book balances to the bank. These unexplained variances were a result of not all receipts being posted into the UAN system.
- Manual receipts are issued for monies received and posted to the UAN general ledger. The reconciliation process performed by the Clerk consisted of comparing the manual receipts issued to the bank deposits. Our testing found that not all the manual receipts were posted into the UAN system.

Failure to correctly reconcile Village books, keep accurate records and re-performance of reconciliations by oversight bodies can result in untimely detection of misappropriation of funds and results in inaccurate records that can misinform decision makers as to the solvency of the Village. We recommend that:

- Investment ledger balances at the end of each month should be reconciled to the bank statement as part of the regular reconciliation process.
- All variances should be reconciled during the reconciliation process. If variances cannot be identified the Clerk should seek outside assistance in order to reconcile the books.

#### **Officials' Response**

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

### **FINDING NUMBER 2005-016**

#### **Material Weakness - Utility Account Processing Procedures**

The following weaknesses and errors were noted in testing utilities:

- The Fiscal Officer is responsible for processing utility bills, receiving payments, depositing utility receipts and entering transactions into the utility system.
- Utility cash collections are made at the local bank, by mail sent to the Village post office address and at the Fiscal Officer's home. Cash assets are not secured in a lockbox or safe at the Village office or the Fiscal Officer's home.
- The Board of Public Affairs (BPA) is not reviewing billing, payment, delinquency journals and consumption reports on a consistent basis.
- The Utility subsidiary ledger is not online with the Receipts ledger and reconciliations between the ledgers are not completed.
- Several days of utility receipts are batched together and credited to the accounts on the same day.
- Utility batches are posted to manual duplicate receipts and are deposited together as one receipt. The individual daily utility batches are posted to the General Ledger.
- Customers maintain large unpaid account balances and the Village has not taken any action on these delinquent accounts.
- The Village Utility Ordinance is not specific on how late charges are to be calculated.

**FINDING NUMBER 2005-016  
(Continued)**

The lack of segregation of duties and weaknesses could result in irregularities not being detected in a timely manner, and loss of revenue or misposting of revenues to the Water and Sewer Operating funds. We recommend the following:

- The Village Council or BPA periodically review and initial Utility Payments Journal and compare receipts to deposits.
- Utility payment should not be accepted at the Fiscal Officer's home. Utility customers should be notified that utility payments should be made to the bank. However, if payments are received through the mail then these collections should be posted to utility customer accounts on the day of collection. At the end of each day a utility payment register should be printed, the days' collections should be posted to the UAN receipt ledger and the deposit made by the next business day. Each individual deposit should agree to the daily utility payment posting register, and to the individual UAN receipt.
- The BPA review billing, payment, and delinquency journals and consumption and production reports on a monthly basis and those members sign off on each journal and report indicating review was completed. The BPA should follow up on any unusual variances noted during their review.
- The Utility subsidiary ledger should be reconciled monthly to the Receipts Ledger
- Payments made at the bank which are deposited to the Village's bank account at the end of the business day should be posted to the customer's account on the next business day. The utility payment register should be printed and the posting made to the UAN receipt ledger at the end of day. Each individual deposit should agree to the daily utility payment posting register, and to the individual UAN receipt.
- The Fiscal Officer should provide a list of delinquent accounts to the BPA and/or Village Council. The BPA/Council should authorize writing off the account or turn them over to the Village solicitor for collection. The BPA should review a computer-generated aging schedule at each of their meetings.
- The Village shall review the Utility Ordinance and amend to the intent of the Village Council.

**Officials' Response**

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

**FINDING NUMBER 2005-017**

**Reportable Condition - Village Tax Record Keeping Procedures**

The following deficiencies in the income tax record keeping were noted:

- Procedures have not been established to determine the completeness of tax filings.
- No indication is made that tax returns submitted to the Village were recalculated.
- Tax records do not provide aging reports.
- The Tax accounting system is not reconciled to collections recorded in the Receipts Ledger.

**FINDING NUMBER 2005-017  
(Continued)**

Failure to establish and implement proper accounting procedures could result in lost revenues for the Village. We recommend that the Village Council establish by resolution the following procedures:

- Billing records should be compared to current listings of tax filers to determine that all necessary individuals are filing tax returns.
- Income tax forms should be carefully reviewed and compared to attached W-2's to ensure correct gross earnings and withholdings are used to calculate tax requirement on the tax return
- Aging reports should be run monthly and at year-end and reviewed by Council.
- At a minimum the income tax records should be reconciled to the receipt ledger at year end.

**Officials' Response**

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

**VILLAGE OF MCCLURE  
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2003-001	ORC § 117.28 Finding for Recovery Repaid Under Audit	Yes	
2003-002	Village Sewer Bond Ordinance 539 § 6(B)(2) Establishment of sinking fund	No	Not corrected. Reissued as finding 2005-001.
2003-003	Village Sewer Bond Ordinance 539 § 6 Review surety bond amount to equal debt payment amount	No	Not corrected. Reissued as finding 2005-002.
2003-004	Village Sewer Bond Ordinance 539 § 8 Negative Sewer Fund balance	No	Not corrected. Reissued as finding 2005-003.
2003-005	7 CFR 1780.47(f)(2)(ii) Form RD 422-2 was not submitted for 2003 and 2004	No	Not corrected. Reissued as finding 2005-005.
2003-006	OPWC Loan Agreement, Article 2.2(b) 2002 and 2003 Reports were not file with OPWC as per Loan Agreement	No	Not corrected. Reissued as finding 2005-006.
2003-007	ORC § 5705.41(D)(1) Expenditures not properly certified	No	Not corrected. Reissued as finding 2005-011.
2003-008	ORC § 5705.41(B) Expenditures exceeding appropriations	No	Not corrected. Reissued as finding 2005-013.
2003-009	ORC § 5705.39 Appropriations exceeding estimated resources	No	Not corrected. Reissued as finding 2005-012.
2003-010	ORC § 5705.40 Appropriation amendments not properly approved	Yes	
2003-011	ORC § 5705.10 Negative fund balances	No	Not corrected. Reissued as finding 2005-008.
2003-012	Material Weakness – Monitoring Village Financial Activity	No	Not corrected. Reissued as finding 2005-014.
2003-013	Material Weakness – Cash Reconciliation Process	No	Not corrected. Reissued as finding 2005-015.

Village of McClure  
 Henry County  
 Schedule of Prior Audit Findings  
 Page 2

2003-014	Material Weakness – Expenditure Record Keeping and Reporting Practices	No	Partially corrected. Reissued in the Management Letter.
2003-015	Reportable Condition – Village Income Tax	No	Not corrected. Reissued as finding 2005-017.
2001-016	Reportable Condition – Utility Account Processing Procedures	No	Not corrected. Reissued as finding 2003-016.



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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  
DECEMBER 19, 2006**