



Mary Taylor, CPA
Auditor of State

VILLAGE OF HARROD
ALLEN COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Harrod
Allen County
P.O. Box 129
Harrod, Ohio 45850

To the Members of Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 9, 2010

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Harrod
Allen County
P.O. Box 129
Harrod, Ohio 45850

To the Members of Council:

We have audited the accompanying financial statements of the Village of Harrod, Allen County (the Village), as of and for the years ended December 31, 2009 and 2008. 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. 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.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008 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, 2009 and 2008, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Harrod, Allen County, as of December 31, 2009 and 2008, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2010, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

September 9, 2010

**VILLAGE OF HARROD
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$22,831		\$22,831
Intergovernmental Receipts	27,486	\$20,087	47,573
Fines, Licenses, and Permits	114		114
Earnings on Investments	344	65	409
Miscellaneous	15,531	302	15,833
Total Cash Receipts	<u>66,306</u>	<u>20,454</u>	<u>86,760</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	7,838		7,838
Public Health Services	997		997
Leisure Time Activities	950		950
Transportation		31,801	31,801
General Government	72,437		72,437
Capital Outlay	5,057	29,015	34,072
Debt Service:			
Principal Payment		29,015	29,015
Interest and Fiscal Charges		284	284
Total Cash Disbursements	<u>87,279</u>	<u>90,115</u>	<u>177,394</u>
Total Receipts (Under) Disbursements	(20,973)	(69,661)	(90,634)
Other Financing Receipts:			
Note Proceeds		29,015	29,015
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements	(20,973)	(40,646)	(61,619)
Fund Cash Balances, January 1	<u>15,510</u>	<u>25,630</u>	<u>41,140</u>
Fund Cash Balances, December 31	<u>(5,463)</u>	<u>(15,016)</u>	<u>(20,479)</u>
Reserves for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

VILLAGE OF HARROD
ALLEN COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE - ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

Operating Cash Receipts:

Charges for Services	\$80,432
Total Operating Cash Receipts	<u>80,432</u>

Operating Cash Disbursements:

Personal Services	12,133
Fringe Benefits	3,400
Contractual Services	23,855
Supplies and Materials	4,734
Total Operating Cash Disbursements	<u>44,122</u>

Operating Income 36,310

Non-Operating Cash Disbursements:

Capital Outlay	(79,414)
Other Uses	(39)
Total Non-Operating Cash Disbursements	<u>(79,453)</u>

Excess of Receipts (Under) Disbursements (43,143)

Fund Cash Balance, January 1 166,861

Fund Cash Balance, December 31 \$123,718

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

**VILLAGE OF HARROD
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$28,114			28,114
Intergovernmental Receipts	39,563	\$21,968	\$45,160	106,691
Fines, Licenses, and Permits	45			45
Earnings on Investments	3,649	925		4,574
Miscellaneous	9,552	900		10,452
Total Cash Receipts	<u>80,923</u>	<u>23,793</u>	<u>45,160</u>	<u>149,876</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	7,144	3,117		10,261
Public Health Services	1,022			1,022
Leisure Time Activities	904			904
Transportation		49,607	45,160	94,767
General Government	67,148			67,148
Capital Outlay	35,627			35,627
Total Cash Disbursements	<u>111,845</u>	<u>52,724</u>	<u>45,160</u>	<u>209,729</u>
Total Receipts (Under) Disbursements	(30,922)	(28,931)	-	(59,853)
Fund Cash Balances, January 1	<u>46,432</u>	<u>54,561</u>		<u>100,993</u>
Fund Cash Balances, December 31	<u>\$15,510</u>	<u>\$25,630</u>	<u>\$0</u>	<u>\$41,140</u>
Reserves for Encumbrances, December 31	<u>\$5,528</u>	<u>\$0</u>	<u>\$0</u>	<u>\$5,528</u>

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

VILLAGE OF HARROD
ALLEN COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE - ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

Operating Cash Receipts:	
Charges for Services	<u>\$77,538</u>
Operating Cash Disbursements:	
Personal Services	12,267
Fringe Benefits	3,357
Contractual Services	27,439
Supplies and Materials	6,082
Other	100
Total Operating Cash Disbursements	<u>49,245</u>
Operating Income	28,293
Non-Operating Cash Disbursements:	
Capital Outlay	(19,698)
Other	(388)
Total Non-Operating Cash Disbursements	<u>(20,086)</u>
Excess of Receipts Over Disbursements	8,207
Fund Cash Balance, January 1	<u>158,654</u>
Fund Cash Balance, December 31	<u><u>\$166,861</u></u>

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

**VILLAGE OF HARROD
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

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 Harrod, Allen County (the Village), as a body corporate and politic. A publicly-elected five-member Council governs the Village. The Village provides general governmental services, sewer utilities, park operations (leisure time activities), and street maintenance. The Village relies on the Allen County Sheriff's department to provide security of persons and property. The Village receives fire protection services from the Harrod Volunteer Fire Department.

The Village participates in the Ohio Government Risk Management Plan (the Plan) a public entity risk pool. This Plan provided insurance coverage for participating members. Note 6 to the financial statements provides additional information for the Plan.

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 report disbursements for investment purchases or receipts for investment sales. The Village reports gains or losses at the time of sale as receipts or disbursements, respectively.

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 for capital projects) that are restricted to expenditure for specific purposes. The Village had the following 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 HARROD
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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 Enterprise Fund:

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The 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.

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

A summary of 2009 and 2008 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.

**VILLAGE OF HARROD
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

2. EQUITY IN POOLED CASH

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

	2009	2008
Demand deposits	\$103,239	\$208,001
Total deposits	\$103,239	\$208,001

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2009 and 2008 follows:

2009 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 79,253	\$ 66,306	(\$12,947)
Special Revenue	20,000	49,469	29,469
Enterprise	79,700	80,432	732
Total	\$178,953	\$196,207	\$17,254

2009 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 89,860	\$ 87,279	\$ 2,581
Special Revenue	76,349	90,115	(13,766)
Enterprise	204,546	123,575	80,971
Total	\$370,755	\$300,969	\$69,786

2008 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 68,945	\$ 80,923	\$11,978
Special Revenue	20,000	23,793	3,793
Capital Projects		45,160	45,160
Enterprise	63,000	77,538	14,538
Total	\$151,945	\$227,414	\$75,469

2008 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$117,367	\$117,373	(\$ 6)
Special Revenue	71,444	52,724	18,720
Capital Projects		45,160	(45,160)
Enterprise	221,654	69,331	152,323
Total	\$410,465	\$284,588	\$125,877

The Village recorded some revenues and expenditures in the wrong fund which violated Ohio Rev. Code Sections 5705.10(A) and 5705.10(H). Ohio Rev. Code Sections 5705.36(A)(2), 5705.36(A)(3), and 5705.40 were violated when the Village failed to amend the certificate of estimated resources and the appropriations resolution for on-behalf payments.

**VILLAGE OF HARROD
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

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.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. RETIREMENT SYSTEMS

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 retirement benefits, including postretirement healthcare, and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2009 and 2008, OPERS members contributed 10 percent, respectively, of their gross salaries and the Village contributed an amount equal to 14 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2009.

6. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management ("OPRM"), are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retain 15% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

OPRM had over 650 members as of December 31, 2008. The Government participates in this coverage.

**VILLAGE OF HARROD
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

6. RISK MANAGEMENT (Continued)

In August, 2007, OGRMP formed the Ohio Plan Healthcare Consortium (“OPHC”), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member’s healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 40 members as of December 31, 2008. The Village does not participate in this coverage.

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 financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member’s covered claims, which occurred during their membership period, remain the responsibility of the Plan.

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

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2008 and 2007 (the latest information available), and include amounts for both OPRRM and OPHC:

	<u>2008</u>	<u>2007</u>
Assets	\$10,471,114	\$11,136,455
Liabilities	<u>(5,286,781)</u>	<u>(4,273,553)</u>
Members’ Equity	<u>\$ 5,184,333</u>	<u>\$ 6,862,902</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan’s website, www.ohioplan.org.

7. RELATED PARTY TRANSACTIONS

A Council Member who is the owner of Hughes Plumbing and Heating provided plumbing and heating services and miscellaneous supplies. The Village paid Hughes Plumbing and Heating \$192 in 2009 and \$272 in 2008.

Various services were also acquired for drainage repair and sewer maintenance and repair, from Allen Hughes Septic Tank Service which is owned by the son of the above Council Member. The Village paid Allen Hughes Septic Tank Service \$3,897 in 2009 and \$1,270 in 2008.

8. GOING CONCERN

As a result of audit adjustments, the Village had a negative General Fund and Street Fund balance, in the amount of \$5,463 and \$15,016, respectively, at December 31, 2009. Local Government Service (LGS) will be monitoring the Village while they continue to have negative fund balances.

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Mary Taylor, CPA

Auditor of State

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

Village of Harrod
Allen County
P.O. Box 129
Harrod, Ohio 45850

To the Members of Council:

We have audited the financial statements of the Village of Harrod, Allen County (the Village), as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated September 9, 2010, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted 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. 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-001 through 2009-003 described in the accompanying schedule of findings to be material weaknesses.

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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 2009-002 through 2009-006.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated September 9, 2010.

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

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

Mary Taylor, CPA
Auditor of State

September 9, 2010

**VILLAGE OF HARROD
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008**

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

FINDING NUMBER 2009-001

Material Weakness

Recording of Financial Activity

The Village should have procedures in place to help assure the proper recording of financial activity in the accounting records and financial statements to assist in the effective management and reporting of financial resources. The following errors were noted in the recording of the Village's transactions for 2009 and 2008:

- In 2009 and 2008, there were revenue classification errors in the amount of \$7,895 and \$5,809, respectively, in the General Fund. Also in 2008 there were revenue classification errors in the amount of \$2,704 in the Special Revenue Street Fund. The revenue classification errors consisted of but were not limited to recording of personal property tax reimbursements and vehicle registration fees as property and other local taxes instead of intergovernmental revenue and recording personal property tax and public utility reimbursements as miscellaneous revenue instead of intergovernmental revenue;
- In 2009 and 2008, the General Fund had expenditure classification errors in the amount of \$1,091 and \$1,300, respectively, as the result of classifying bank fees as other financing uses instead of general government;
- In 2009, loan proceeds and the related capital outlay expenditure in the amount of \$29,015 related to a truck purchase from the Street Fund were not recorded in the accounting records and financial statements;
- In 2009, a receipt in the amount of \$5,800 was recorded in the General Fund however there was no support for the receipt;
- In 2009, receipts in the amount of \$3,132 and \$2,454, were recorded in the General Fund and Enterprise Sewer Fund, respectively, however these receipts were not received by the Village until January 2010;
- In 2008, the Village failed to record a memo receipt and expenditure in the Capital Projects Issue II Fund in the amount of \$45,160 for an Ohio Public Works Commission Street Project; and
- At December 31, 2008, General Fund encumbrances in the amount of \$5,528 were not reported in accounting records or financial statements.

The failure to correctly record revenues and expenditures may not only impact the users' understanding of the financial operations, it may also inhibit the Village Council and management's ability to make sound financial decisions as a result of erroneous records, may conceal illegal transactions, may impact the Village's ability to comply with budgetary laws, and may result in the material misstatement of the financial statements. The accounting records and accompanying financial statements have been adjusted to correctly reflect this financial activity.

The Village Fiscal Officer should review the Ohio Village Manual, the UAN Manual, and Auditor of State Audit Bulletins 2000-008 and 2002-004 for guidance in the recording of financial activity. The Village's Fiscal Officer and Council Members should also perform a periodic review of the financial records and financial statements to help identify financial recording errors.

FINDING NUMBER 2009-002

Material Weakness / Noncompliance Citation

Ohio Rev. Code Section 5705.10 (A) requires that all revenue derived from the general property tax levy for current expense shall be paid into the general fund. In 2008, the Village recorded personal property taxes in the amount of \$3,006 belonging to the General Fund in the Enterprise Sewer Operating and Enterprise Sewer Reserve Funds. The accounting records and accompanying financial statements have been adjusted to correct this recording error.

The failure to record revenues in correct fund could result in the illegal expenditure of restricted revenue and/or the material misstatement of the financial statements.

The Village Council should periodically perform a detailed review of the accounting records to help identify revenue recording errors.

FINDING NUMBER 2009-003

Material Weakness / Noncompliance Citation

Ohio Rev. Code Section 5705.10 (H) states money paid into any fund shall be used only for the purposes for which such fund is established.

In 2009, the Village disbursed \$29,299 from Enterprise Funds to meet obligations of the Street Fund, and \$4,554 from Enterprise Funds to meet obligations of the General Fund. The monies paid into the Village's Enterprise Funds were derived from user charges for sewer services and are restricted to use for maintenance of the Village's sewer system.

The Village's intent was to issue manuscript debt as permitted by **Ohio Rev. Code Section 731.56** but the required steps to issue this debt were not followed, which resulted in disbursements being charged to the incorrect funds.

In addition, during 2008 auditor and treasurer fees in the amount of \$194 related to the County's collection and distribution of delinquent sewer bills were improperly charged to the General Fund rather than the Enterprise Sewer Funds.

The Village's accounting records and the accompanying financial statements have been adjusted to record these disbursements in the proper funds.

The Village Council should periodically perform a detailed review of the accounting records to help identify disbursements made from the incorrect funds. The failure to identify and correct these errors could result in the fund balances being materially misstated and the improper use of resources. In addition, the Village should utilize Chapter 3 of the Ohio Compliance Supplement to identify the appropriate procedures to account for the issuance of manuscript debt.

FINDING NUMBER 2009-004

Noncompliance Citation / Finding For Recovery / Repaid Under Audit

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951) provides that the primary object of an expenditure of public funds should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only.

**FINDING NUMBER 2009-004
(Continued)**

Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper “Public Purpose” states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Bulletin further states that the Auditor of State’s Office does not view the expenditure of public funds for alcoholic beverages as a proper public purpose and will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

During 2008, the Village Fiscal Officer attended a training course requiring an overnight stay and was reimbursed by the Village for lodging and meal expenses. The amount reimbursed to the Fiscal Officer included \$6.25 for the purchase of alcoholic beverages, which is not a proper public purpose.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code 117.28, a Finding for Recovery of public monies illegally expended is hereby issued against Kent Zimmerly, Fiscal Officer, in the total amount of \$6.25 and in favor of the Village of Harrod’s General Fund. The Fiscal Officer repaid the \$6.25 to the Village’s General fund on December 17, 2009 with Village receipt number 250-2009.

The Village Council should establish and implement a travel reimbursement policy outlining the types of travel authorized, allowable and unallowable expenses, limitations on the amount of travel reimbursement and types of supporting documentation required for reimbursement. Further, all travel expenses should be reviewed for compliance with the policy. The Village should utilize Chapter 7, Section 7-3, of the Ohio Compliance Supplement, as an aid in establishing this policy.

FINDING NUMBER 2009-005

Noncompliance Citation

Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater than the amount in the official certificate of estimated resources. **Ohio Rev. Code Section 5705.36(A)(3)** requires obtaining an increased amended certificate from the budget commission if the legislative authority intends to appropriate and expend excess revenue. **Ohio Rev. Code Section 5705.40** allows an entity to amend or supplement appropriations.

In 2009, the Village failed to amend the certificate of estimated resources and the appropriations resolution for the Street Fund to record loan proceeds and the related capital outlay expenditures, in the amount of \$29,015, for the purchase of a truck. The bank disbursed this money directly to the vendor.

In 2008, the Village failed to amend the certificate of estimated resources and the appropriations resolution for intergovernmental revenue and the related capital outlay disbursements spent on-behalf of the Village for street improvements as part of an Ohio Public Works Commission Project. The amount spent on-behalf of the Village in 2008 was \$45,160.

To assist in the monitoring of budgetary activity the Village should amend the applicable budgetary documents for money spent on behalf of the Village. In addition, AOS Bulletins 2000-008 and 2002-004 should be reviewed to further the Village’s understanding of the accounting for on-behalf payments.

FINDING NUMBER 2009-006

Noncompliance Citation

26 CFR § 31.6051-2(a) states, in part, that every employer who is required to make a return of tax for a calendar year or any period therein shall file the Social Security Administration copy of each Form W-2 required to be furnished by the employer with respect to wages paid during the calendar year. Each Form W-2 and the transmittal Form W-3 shall together constitute an information return to be filed with the Social Security Administration office indicated on the instructions to such forms.

**FINDING NUMBER 2009-006
(Continued)**

The Village filed its 2006 Forms W-2 and Form W-3 as required during 2007. However, there were discrepancies between amounts reported as Social Security Wages, Medicare Wages and Income Tax Withholding on Forms W-2, W-3 and Quarterly 941's. These discrepancies were identified by the Internal Revenue Service during 2009 and resulted in a notice (IRS Notice Number CP240) being sent to the Village indicating the Village's account had been adjusted and the Village owed \$4,553.60 due to adjustments, penalties and interest.

The aforementioned discrepancies were a result of incorrect amounts being reported by the Village on Form W-3. The W-2 Forms appear to have been completed properly but Social Security and Medicare Wages were overstated on Form W-3 which resulted in the Internal Revenue Service determining the Village had a balance due. On March 14, 2009 the Village issued warrant number 6951 in the amount of \$4,553.60 to the Internal Revenue Service to pay for the adjustments, penalties and interest.

The Village should contact the Internal Revenue Service to determine the appropriate procedures for filing an amended Form W-3 for the year 2006. In addition, the Village Fiscal Officer should implement procedures to reduce the likelihood of discrepancies between amounts reported on Forms W-2, W-3 and 941. These procedures should include performing a reconciliation of the amounts reported on each form prior to filing the forms. Also, the Village should consider reviewing these forms for the years 2007 to 2009 to determine if they were properly completed.

OFFICIAL'S RESPONSE: We did not receive a response from Officials to the findings reported above.

**VILLAGE OF HARROD
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 AND 2008**

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2007-001	Recording Financial Activity – The Village’s 2007 and 2006 financial statements contained financial reporting errors.	No	Repeated as Finding 2009-001
2007-002	Ohio Rev. Code Section 135.21 – The Village allocated interest to the Capital Projects Fund during 2007 which is not permitted by this section.	No	Similar interest recording issue reported in the management letter
2007-003	Ohio Rev. Code Section 5705.41 (D) – The Village did not certify the availability of funds prior to entering into purchase obligations.	No	Repeated in the management letter.

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Mary Taylor, CPA
Auditor of State

VILLAGE OF HARROD

ALLEN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 14, 2010**