



**Auditor of State
Betty Montgomery**

VILLAGE OF HAMLER
HENRY COUNTY

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**Auditor of State
Betty Montgomery**

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

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

November 15, 2005

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 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 year ended December 31, 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, 2004, or its changes in financial position or cash flows of its proprietary funds for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Hamler, Henry County, as of December 31, 2004, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 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 15, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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



Betty Montgomery
Auditor of State

November 15, 2005

**VILLAGE OF HAMLER
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$8,115				\$8,115
Municipal Income Tax	94,157				94,157
Intergovernmental Receipts	42,696	\$26,319		\$279,443	348,458
Charges for Services	750				750
Fines, Licenses, and Permits	479				479
Earnings on Investments	3,657				3,657
Miscellaneous	14,893				14,893
	<hr/>				<hr/>
Total Cash Receipts	164,747	26,319		279,443	470,509
Cash Disbursements:					
Current:					
Security of Persons and Property	33,278				33,278
Public Health Services	3,654				3,654
Leisure Time Activities	108				108
Basic Utility Services	905				905
Transportation	21,274	3,753			25,027
General Government	63,656				63,656
Debt Service:					
Principal Payments	17,643				17,643
Interest Payments	7,231				7,231
Capital Outlay				291,460	291,460
	<hr/>			<hr/>	<hr/>
Total Cash Disbursements	147,749	3,753		291,460	442,962
Total Cash Receipts Over/ (Under) Cash Disbursements	<hr/>	<hr/>		<hr/>	<hr/>
	16,998	22,566		(12,017)	27,547
Other Financing Receipts					
OPWC Loan Proceeds				12,017	12,017
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements					
	16,998	22,566			39,564
Fund Cash Balances, January 1	113,827	119,124	337		233,288
Fund Cash Balances, December 31	<u>\$130,825</u>	<u>\$141,690</u>	<u>\$337</u>		<u>\$272,852</u>
Reserve for Encumbrances, December 31	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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

**VILLAGE OF HAMLER
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Propriety Fund Type Enterprise</u>
Operating Cash Receipts:	
Charges for Services	<u>\$139,518</u>
Total Operating Cash Receipts	<u>139,518</u>
Operating Cash Disbursements:	
Personal Services	39,418
Travel and Transportation	6,017
Contractual Services	126,087
Supplies and Materials	44,363
Other	100
Capital Outlay	<u>1,828,143</u>
Total Operating Cash Disbursements	<u>2,044,128</u>
Operating (Loss)	<u>(1,904,610)</u>
Non-Operating Cash Receipts:	
Intergovernmental Receipts	306,464
Proceeds from OWDA and OPWC loans	<u>1,583,377</u>
Total Non-Operating Cash Receipts	<u>1,889,841</u>
Non-Operating Cash Disbursements:	
Debt Service	<u>3,402</u>
Net Cash Receipts (Under) Cash Disbursements	(18,171)
Fund Cash Balances, January 1	<u>198,914</u>
Fund Cash Balances, December 31	<u><u>\$180,743</u></u>
Reserve for Encumbrances, December 31	<u><u>\$290,021</u></u>

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

**VILLAGE OF HAMLER
HENRY COUNTY**

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

The Village'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 Deposits

The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

The General Fund 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.

3. Debt Service Fund

This fund accounted for resources the Village accumulated to pay bond and note debt.

**VILLAGE OF HAMLER
HENRY COUNTY**

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

4. Capital Projects Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

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

5. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Fund:

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

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.

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 use the encumbrance method of accounting. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of budgetary activity appears in Note 3.

**VILLAGE OF HAMLER
HENRY COUNTY**

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

F. Property, Plant, and Equipment

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

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:

	2004
Demand deposits	\$323,595
Certificates of deposit	130,000
Total deposits	\$453,595

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

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2004 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$165,000	\$164,747	(\$253)
Special Revenue	24,200	26,319	2,119
Debt Service	0	0	0
Capital Projects	0	291,460	291,460
Enterprise	150,000	2,029,359	1,879,359
Total	\$339,200	\$2,511,885	\$2,172,685

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$278,828	\$147,749	\$131,079
Special Revenue	143,323	3,753	139,570
Debt Service	337	0	337
Capital Projects	0	291,460	(291,460)
Enterprise	348,914	2,337,551	(1,988,637)
Total	\$771,402	\$2,780,513	(\$2,009,111)

Expenditures in the State Issue II Capital Projects fund and the Sewer Capital Improvement fund exceeded appropriations by (\$291,460) and (\$2,088,936), respectively.

**VILLAGE OF HAMLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(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.

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

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

6. DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$1,576,265	1.90%
Mortgage Loan	150,626	4.50%
Ohio Public Works Commission Loan CE12F	30,618	0.00%
Total	<u>\$1,757,509</u>	

The Village entered into a loan agreement with Ohio Water Development Authority (OWDA) on May 27, 2004 to assist in funding a Village sanitary sewer construction project. The OWDA Loan will mature on July 1, 2007 with an annual rate of 1.90%. The principal amount outstanding at December 31, 2004 is \$1,576,265. The sanitary sewer project is not completed as of December 31, 2004 and the Village will continue to receive additional OWDA Loan proceeds in 2005. Upon maturity the OWDA Loan will be repaid by a USDA Rural Development Loan.

The Mortgage loan relates to the Village purchasing land. The Mortgage loan is repaid over 12 year period at a rate of 4.5%. The annual payment of \$24,874 including interest payments will be made though 2012. The Mortgage Loan is collateralized by the Villages taxing authority.

**VILLAGE OF HAMLER
HENRY COUNTY**

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

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

Amortization of the above debt, including interest, follows:

<u>Year ending December 31:</u>	<u>Mortgage Loan</u>	<u>OPWC Loan CE12F</u>
2005	\$24,875	\$3,402
2006	24,875	3,402
2007	24,875	3,402
2008	24,875	3,402
2009	24,875	3,402
2010-2014	51,820	13,608
Total	<u>\$176,195</u>	<u>\$30,618</u>

In 2004 the Ohio Public Works Commission (OPWC) approved Loan CE28G in the amount of \$52,800 in an interest free loan to the Village for railroad street drainage road improvements. As of December 31, 2004 no loan proceeds have been received.

7. RETIREMENT SYSTEMS

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

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

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Crime;
- Equipment; and
- Public officials' errors and omissions.

**VILLAGE OF HAMLER
HENRY COUNTY**

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

9. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**VILLAGE OF HAMLER
HENRY COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Award Amount	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Water Development Authority</i>			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 1,915,000	\$ 1,576,265
Total Federal Awards Expenditures			<u>\$ 1,576,265</u>

The accompanying notes are an integral part of this schedule.

**VILLAGE OF HAMLER
HENRY COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
DECEMBER 31, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

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

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

To the Village Council:

We have audited the financial statements of the Village of Hamler, Henry County, (the Village) as of and for the year ended December 31, 2004, and have issued our report thereon dated November 15, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Government's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2004-003 listed above to be a material weakness. In a separate letter to the Village's management dated November 15, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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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 that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2004-001 to 2004-002. In a separate letter to the Village's management dated November 15, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 15, 2005



**Auditor of State
Betty Montgomery**

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

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

To the Village Council:

Compliance

We have audited the compliance of Village of Hamler, Henry County (the Village) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended December 31, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the Village's major federal program. The Village's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Village's compliance based on our audit.

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

In our opinion, the Village of Hamler, Henry County complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2004.

Internal Control Over Compliance

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

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

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



Betty Montgomery
Auditor of State

November 15, 2005

VILLAGE OF HAMLER
HENRY COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2004

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. In Ohio, the legal level of control is the level at which the appropriation measure is passed by the legislative authority of a local government. Also, Ohio Revised Code § 5705.36 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.

The Village received debt proceeds from the Ohio Public Works Commission and Ohio Water Development Authority related to the sanitary sewer project in 2004. The Village did not obtain an amended certificate for these additional funds or appropriate for them resulting in expenditures exceeding appropriations in the following funds for the year ending December 31, 2004:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Issue II Fund	\$ 0	\$ 291,460	\$ 291,460
Sewer Capital Improvement	110,438	2,199,374	2,088,936

In addition, expenditures exceeded appropriations for the following legal levels of control within the General Fund for the year ending December 31, 2004:

<u>Legal Level of Control</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
A1-1-B-240	\$ 5,000	\$ 6,059	\$ 1,059
A1-7-D-211	4,500	5,211	711
A1-7-D-240	4,000	4,973	973
A1-7-D-241	8,500	9,250	750
A1-7-E-230	9,000	15,248	6,248
A1-7-G-231	1,000	6,389	5,389
A1-7-J-234	5,000	5,463	463

The Clerk-Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. We recommend the Clerk-Treasurer and Village Council members review and understand the budgetary requirements as outlined in this Ohio Revised Code Section and in Auditor of State Bulletins 1997-010 Miscellaneous Budgetary Issues and 2002-004 Ohio Public Works Commission Infrastructure Project Accounting (Issue II Money).

FINDING NUMBER 2004-002

Noncompliance Citation

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

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

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

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

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

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

The Clerk-Treasurer does not certify transactions 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 to those funds.

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

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

FINDING NUMBER 2004-003

Material Weakness - Utilities Processing

The following deficiencies were noted during testing of utilities:

- There is a lack of segregation of duties in the utilities department. The Utility Supervisor performs all duties related to utilities; the reading of the meters, processing of utility billings, adjusting accounts and collection of deposit and hook up fees. There is a lack of monitoring by the Board of Public Affairs (BPA) or Council to compensate for this weakness.
- Old customer balances (delinquent) are maintained within new customer account balances for the same location. Utility Supervisor will then manually prepare two billing stubs for the same account to reflect delinquent bill for old customer and current bill for new customer.
- Incorrect rate was charged to the two sewer only customers.
- Penalties are not being consistently applied to accounts that pay after due date. This appears to be a result of running the *Calculate Penalties* report after delinquent payments are recorded in the system. It is estimated that approximately 137 monthly billings out of total approximation of 3,300 monthly billings were not assessed penalties.
- Utility services were not discontinued on accounts delinquent for thirty days or more after due date as required by Council Ordinance.
- There is no reconciliation between the general ledger and the utility subsidiary ledger.
- Review of utility billing register is not performed before bills are printed contributing to numerous manual changes written on utility stubs.
- Deposit fees are commingled within Utility activity; a Utility Deposit fund has not been established. Customer accounts are not being marked or flagged in the Utility System to indicate that a deposit payment has been made. Deposit forms do not include date paid, payment method or deposit date. Prenumbered duplicate receipts are not issued to customers. Council Ordinance establishing deposit fee is silent on how to refund, disburse or apply deposits.
- Utility billing hardware and records are accessible by individuals entering the often unlocked and unattended building.

**FINDING NUMBER 2004-003
(Continued)**

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

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

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

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

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

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

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

- Physical access to the utility billing hardware and records should be locked when the Utility Supervisor is not on site.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**VILLAGE OF HAMLER
HENRY COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003 -001	ORC 5705.41(D) – Failure to certify expenditures	No	Not corrected. Repeated in this report as Finding Number 2004-002
2003-002	ORC 5705.41(B) Expenditures exceeding appropriations	No	Not corrected. Repeated in this report as Finding Number 2004-001
2003-003	Material Weakness - Utilities Processing	No	Not corrected. Repeated in this report as Finding Number 2004-003



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VILLAGE OF HAMLER

HENRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 6, 2005**