

***VILLAGE OF MURRAY CITY
HOCKING COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2004

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA

Auditor of State

Village Council
Village of Murray City
13964 Locust Street
Murray City, Ohio 43144

We have reviewed the *Report of Independent Accountants* of the Village of Murray City, Hocking County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2004 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Murray City is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 5, 2007

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**VILLAGE OF MURRAY CITY
HOCKING COUNTY
For the Years Ending December 31, 2005 and 2004**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Murray City
Hocking County
13964 Locust Street
Murray City, Ohio 43144

To Village Council:

We have audited the accompanying financial statements of the Village of Murray City, Hocking County, Ohio as 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.

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 that 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 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 the 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 and cash flows 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 Murray City, Hocking 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 30, 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 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.

Charles E. Harris & Associates, Inc.

November 30, 2006

VILLAGE OF MURRAY CITY
HOCKING 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

	Governmental Fund Types			Total
	General	Special Revenue	Debt Service	(Memorandum Only)
Receipts:				
Property and Other Local Taxes	\$ 20,914	\$ 5,880	-	\$ 26,794
Charges for Services	2,500	-	-	2,500
Intergovernmental	18,308	18,929	-	37,237
Fines, Licenses and Permits	27,974	-	-	27,974
Interest	63	23	-	86
Other	1,934	-	-	1,934
Total Receipts	71,693	24,832	-	96,525
Disbursements:				
General Government	37,274	1,259	-	38,533
Security of Persons & Property	41,098	-	-	41,098
Transportation	-	24,892	-	24,892
Debt Service:				
Principal	-	-	\$ 2,063	2,063
Interest	-	-	143	143
Total Disbursements	78,372	26,151	2,206	106,729
Receipts over(under) disbursements	(6,679)	(1,319)	(2,206)	(10,204)
Other Financing Sources (Uses)				
Transfers in	-	-	2,300	2,300
Transfers out	(2,300)	-	-	(2,300)
Total Other Financing Sources (Uses)	(2,300)	-	2,300	-
Total Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(8,979)	(1,319)	94	(10,204)
Fund Balance 1/1/2005	9,989	4,040	-	14,029
Fund Balance 12/31/2005	<u>\$ 1,010</u>	<u>\$ 2,721</u>	<u>\$ 94</u>	<u>\$ 3,825</u>
Reserve for Encumbrances, December 31, 2005	<u>\$ 51</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF MURRAY CITY
HOCKING COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total</u>
	<u>Enterprise</u>	<u>Agency</u>	<u>(Memorandum Only)</u>
Operating Cash Receipts:			
Charges for Services	\$ 82,980	-	\$ 82,980
Total Operating Cash Receipts	<u>82,980</u>	<u>-</u>	<u>82,980</u>
Operating Cash Disbursements:			
Personal Services	7,847	-	7,847
Contractual Services	2,076	-	2,076
Supplies and Materials	10,118	-	10,118
Other	805	-	805
Capital Outlay	59,998	-	59,998
Total Operating Cash Disbursements	<u>80,844</u>	<u>-</u>	<u>80,844</u>
Operating Income (Loss)	2,136	-	2,136
Non-Operating Cash Receipts/(Disbursements)			
Fines and Forfeitures	-	\$ 33,439	33,439
Distribution of Fines	-	(33,439)	(33,439)
Total Non-Operating Cash Receipts/(Disbursements)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Cash Receipts Over Cash Disbursements	2,136	-	2,136
Fund Cash Balances, January 1, 2005	<u>526</u>	<u>8</u>	<u>534</u>
Fund Cash Balances, December 31, 2005	<u>\$ 2,662</u>	<u>\$ 8</u>	<u>\$ 2,670</u>
Reserve for Encumbrances, December 31, 2005	<u>\$ 23</u>	<u>\$ -</u>	<u>\$ 23</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF MURRAY CITY
HOCKING 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

	Governmental Fund Types			Total
	General	Special Revenue	Debt Service	(Memorandum Only)
Receipts:				
Property and Other Local Taxes	\$ 21,197	\$ 6,055	-	\$ 27,252
Charges for Services	3,500	-	-	3,500
Intergovernmental	18,030	16,031	-	34,061
Fines, Licenses and Permits	17,910	75	-	17,985
Interest	58	22	-	80
Other	2,110	879	-	2,989
	-			
Total Receipts	<u>62,805</u>	<u>23,062</u>	<u>-</u>	<u>85,867</u>
Disbursements:				
General Government	25,610	188	-	25,798
Security of Persons & Property	26,384	-	-	26,384
Transportation	-	17,955	-	17,955
Capital Outlay	5,900	-	-	5,900
Debt Service:				
Principal	2,373	3,394	\$ 823	6,590
Interest	127	181	277	585
Total Disbursements	<u>60,394</u>	<u>21,718</u>	<u>1,100</u>	<u>83,212</u>
Receipts over(under) disbursements	2,411	1,344	(1,100)	2,655
Other Financing Sources (Uses)				
Proceeds of Notes	6,000	-	-	6,000
Transfers in	-	-	1,100	1,100
Transfers out	(1,100)	-	-	(1,100)
Total Other Financing Sources (Uses)	<u>4,900</u>	<u>-</u>	<u>1,100</u>	<u>6,000</u>
Total Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	7,311	1,344	-	8,655
Fund Balance 1/1/2004	<u>2,678</u>	<u>2,696</u>	<u>-</u>	<u>5,374</u>
Fund Balance 12/31/2004	<u>\$ 9,989</u>	<u>\$ 4,040</u>	<u>\$ -</u>	<u>\$ 14,029</u>
Reserve for Encumbrances, December 31, 2004	<u>\$ 51</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF MURRAY CITY
HOCKING COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total</u>
	<u>Enterprise</u>	<u>Agency</u>	<u>(Memorandum Only)</u>
Operating Cash Receipts:			
Charges for Services	\$ 75,163	-	\$ 75,163
Total Operating Cash Receipts	<u>75,163</u>	<u>-</u>	<u>75,163</u>
Operating Cash Disbursements:			
Personal Services	8,220	-	8,220
Contractual Services	3,212	-	3,212
Supplies and Materials	6,496	-	6,496
Other	225	-	225
Capital Outlay	63,531	-	63,531
Total Operating Cash Disbursements	<u>81,684</u>	<u>-</u>	<u>81,684</u>
Operating Income (Loss)	(6,521)	-	(6,521)
Non-Operating Cash Receipts/(Disbursements)			
Fines and Forfeitures	-	\$ 21,525	21,525
Distribution of Fines	-	(21,525)	(21,525)
Redemption of Principal	(1,022)	-	(1,022)
Interest and Other Fiscal Charges	(54)	-	(54)
Total Non-Operating Cash Receipts/(Disbursements)	<u>(1,076)</u>	<u>-</u>	<u>(1,076)</u>
Excess of Cash Receipts Over Cash Disbursements	(7,597)	-	(7,597)
Fund Cash Balances, January 1, 2004	<u>8,123</u>	<u>8</u>	<u>8,131</u>
Fund Cash Balances, December 31, 2004	<u>\$ 526</u>	<u>\$ 8</u>	<u>\$ 534</u>
Reserve for Encumbrances, December 31, 2004	<u>\$ 23</u>	<u>\$ -</u>	<u>\$ 23</u>

See accompanying Notes to the Financial Statements.

**VILLAGE OF MURRAY CITY
HOCKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Murray City, (the Village) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected, six-member Council. The Village provides street maintenance and water utilities operations, park operations, and police protection services. The Village appropriates General Fund money to support a volunteer fire department.

The Village's management believes these financial statements included in this report represent all of the funds of the Village over which the Village has the ability to exercise direct operating control.

B. BASIS OF ACCOUNTING

The Village prepares its financial statements following the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved.)

The statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. CASH AND INVESTMENTS

The Village maintains all available cash in an interest-bearing checking account.

D. FUND ACCOUNTING

The Village maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

VILLAGE OF MURRAY CITY
HOCKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. FUND ACCOUNTING – (Continued)

Governmental Fund Types:

General Fund: The general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

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

- Street Construction Maintenance & Repair Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.
- State Highway Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.
- FEMA Fund – This fund receives federal and state grants to repair Village streets.

Debt Service Fund: This fund is used to accumulate for the payment of bonds and note indebtedness. The Village had the following significant Debt Service fund:

- (Cruiser) Other Debt Service Fund – This fund receives transfers of cash from the General Fund to pay the debt of a police cruiser.

Proprietary Fund Types:

Enterprise Funds: These funds account for operations that are similar to private business enterprises where management intends that the significant costs or providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise fund:

**VILLAGE OF MURRAY CITY
HOCKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. FUND ACCOUNTING – (Continued)

Proprietary Fund Types: - (Continued)

- Water Operating Fund – this fund receives charges for services from residents to cover the cost of providing this utility.
- Water Deposit Fund – this fund receives deposits for services from residents to cover the cost of providing this utility.

Fiduciary Funds: Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following Fiduciary Fund:

- Mayor’s Court Fund – this agency fund accounts for the financial activities of the Mayor’s Court.

E. BUDGETARY PROCESS

A budget of estimated cash receipts and disbursements is prepared by the Clerk-Treasurer, approved by the Village Council, and submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

1. Estimated Resources

The county auditor calculates the estimated revenues available to the Village. He prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the Village. The certificate is approved by the county budget commission and sent to the Village Clerk by September 1.

Prior to December 31, the Village must revise its budget so that the total budgeted expenditures for a fund will not exceed the amount of stated in the certificate of estimated resources. The revised budget serves as the basis for the annual appropriation measure.

VILLAGE OF MURRAY CITY
HOCKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. BUDGETARY PROCESS – (Continued)

On or about January 1, the Clerk sends the county auditor a certificate to which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate, submits it to the county budget commission for approval. This amended certificate may be further amended during the year if Clerk-Treasurer identifies increases or decreases in revenue. The amounts reported in the budgetary footnote reflect the amounts in the final amended certificates issued during 2004 and 2005.

Budgeted receipts, as shown in Note 5, do not include the unencumbered fund balances as of January 1, 2004 and 2005. However, those fund balances are available for appropriation.

2. Appropriations

A temporary appropriation measure to control cash expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by March 31 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

3. Encumbrances

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The sum of expenditures and encumbrances may not exceed appropriated totals at any level of budgetary control. The legal level of control is the object level.

Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding year without being re-appropriated.

A summary of 2005 and 2004 budgetary activity appears in Note 5.

**VILLAGE OF MURRAY CITY
HOCKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

F. PROPERTY, PLANT AND EQUIPMENT

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. ACCUMULATED LEAVE

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

2. CASH AND INVESTMENTS

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

	<u>2005</u>	<u>2004</u>
Demand deposits	\$ 6,495	\$ 14,563

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

3. PROPERTY TAXES

Real property taxes are levied on assessed values, which equal 35% of appraised value. The county auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2001.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The State Board of Tax Equalization adjusts the tax rates for inflation. Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio. The amounts reimbursed by the State of Ohio are reflected in the accompanying financial statements as Intergovernmental Receipts.

**VILLAGE OF MURRAY CITY
HOCKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005**

3. PROPERTY TAXES – (Continued)

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

The property owners, who must file a list of such property to the County by each April 30, assess tangible personal property tax.

The Guernsey County Treasurer collects property tax on behalf of all taxing Villages within the county. The Guernsey County Auditor periodically remits to the taxing Village their portions of the taxes collected.

4. DEFINED BENEFIT PENSION PLAN

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2005 and 2004, OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross wages. The Village has paid all contributions required through December 31, 2005.

5. BUDGETARY ACTIVITY

2005 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 79,230	\$ 71,693	\$ (7,537)
Special Revenue	26,785	24,832	(1,953)
Debt Service	-0-	2,300	2,300
Enterprise	86,600	82,980	(3,620)

2005 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 85,287	\$ 80,723	\$ 4,564
Special Revenue	32,158	26,151	6,007
Debt Service	2,300	2,206	94
Enterprise	93,226	80,867	12,359

**VILLAGE OF MURRAY CITY
HOCKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005**

5. BUDGETARY ACTIVITY – (Continued)

<u>2004 Budgeted vs. Actual Receipts</u>			
<u>Fund Type</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
	<u>Receipts</u>	<u>Receipts</u>	
General	\$ 63,000	\$ 68,805	\$ 5,805
Special Revenue	27,460	23,062	(4,398)
Debt Service	1,100	1,100	-0-
Enterprise	76,400	75,163	(1,237)

<u>2004 Budgeted vs. Actual Budgetary Basis Expenditures</u>			
<u>Fund Type</u>	<u>Appropriation</u>	<u>Budgetary</u>	<u>Variance</u>
	<u>Authority</u>	<u>Expenditures</u>	
General	\$ 61,650	\$ 61,545	\$ 105
Special Revenue	26,000	21,718	4,282
Debt Service	1,100	1,100	-0-
Enterprise	76,400	82,783	(6,383)

6. DEBT

Debt outstanding at December 31, 2005 was as follow:

	<u>Principal</u>	<u>Interest Rate</u>
G.O. Note	\$ 3,114	4.00%

The General Obligation note was issued in July of 2004 for the purchase of a used police cruiser. The note is secured by the full faith and credit of the Village.

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

	<u>G.O. Note</u>
Year Ending	
December 31:	
2006	\$ 2,300
2007	<u>1,150</u>
Total	<u>\$ 3,450</u>

VILLAGE OF MURRAY CITY
HOCKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained insurance for the following risks:

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

The Village has not incurred significant reductions in insurance coverage from prior years. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

8. CONTINGENT LIABILITIES/ SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

9. BUDGETARY NONCOMPLIANCE

The Village had the following citations for budgetary noncompliance:

- Contrary to **Ohio Rev. Code Section 5705.41(D)**, the Village did not obtain prior certification for expenditures.
- Contrary to **Ohio Rev. Code Section 5705.41 (B)**, the Village had expenditures that exceed appropriations at the fund level.
- Contrary to **Ohio Rev. Code Section 5705.39**, the Village had appropriations in excess of estimated resources.

10. TRANSFERS

The Village transferred money from the General Fund to the Other Debt Service Fund during 2004 and 2005.

The Village has complied with all applicable Ohio Revised Code requirements.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of Murray City, Hocking County
13964 Locust Street
Murray City, Ohio 43144

To the Village Council:

We have audited the financial statements of the Village of Murray City, Hocking County, Ohio (Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated November 30, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 to be 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 the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-VMCHC-002 and 2005-VMCHC-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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated November 30, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed several instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2005-VMCHC-001 and 2005-VMCHC-004 through 2005-VMCHC-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated November 30, 2006.

This report is intended solely for the information and use of the management and Village Council and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris and Associates, Inc.

November 30, 2006

VILLAGE OF MURRAY CITY
HOCKING COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004

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

FINDING NUMBER 2005-VMCHC-001

Noncompliance Citation

Ohio Revised Code Section 5705.41 (D)(1), requires, in part, that no subdivision or taxing unit shall make any contract or order any expenditure unless there is attached thereto a certificate of the fiscal officer of the subdivision certifying that the amount required to meet the obligation has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

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.

"Then and Now" Certificate – If the fiscal officer can certify that both at the time 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 expenditure by the Village.

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.

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.

**VILLAGE OF MURRAY CITY
HOCKING COUNTY**

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

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

**FINDING NUMBER 2005-VMCHC-001
(Continued)**

Twenty-three percent of transactions we tested for 2005 and 2004 did not include prior certification of the availability of funds by the Clerk-Treasurer nor was there any evidence of a “Then and Now” certificate being used. Failure to properly certify the availability of funds can result in overspending funds and negative cash balances.

We recommend the Village’s management implement procedures to gain fiscal control over expenditures. Purchase orders containing the required certification should be utilized to certify the availability of funds prior to commitments being incurred. Appropriations should then be encumbered and balances maintained of unencumbered appropriations. Additional purchase orders should be issued only after the fiscal officer determines that sufficient unencumbered appropriations exist in the amount of the requested purchase.

The Clerk-Treasurer will review budgetary requirements, including purchasing.

FINDING NUMBER 2005-VMCHC-002

Material Weakness

Management has a key role to play in ensuring the Village establish and maintain effective internal controls. Accordingly, Village management must establish procedures to ensure and document that the Village is complying with applicable legal requirements.

The results of our audit indicated a weakness in management’s role to establish and maintain effective internal controls and to ensure and document the Village is complying with legal requirements as evidenced by the material noncompliance citations and material weaknesses included in our report. The small size of the Village’s staff did not allow for an adequate segregation of duties as the Village Clerk-Treasurer performed all accounting functions, including receipting, depositing, disbursing, and reconciling Village monies.

Monitoring controls could be implemented where Village Council could function as a finance and audit committee to monitor financial activity closely and to follow up on any audit findings.

We recommend Village Council become more actively involved in monitoring the financial activity of the Village. Village Council should assure that the Village Clerk-Treasurer performs a monthly bank reconciliation that includes total fund balances being reconciled to total deposits and investments, detailing outstanding checks and any other reconciling items. Village Council should then review the validity of the computations and attest to the reconciliation’s accuracy. Village Council should also assure the Clerk-Treasurer maintains and presents to Council monthly the following records; receipts ledger, appropriations ledger, cash journal, budget vs. actual reports for receipts and disbursements, payroll journal and check register. Supervisory reviews should be performed by members of Village Council and evidenced by the initials of each member performing the review and the date the review was performed.

**VILLAGE OF MURRAY CITY
HOCKING COUNTY**

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

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

**FINDING NUMBER 2005-VMCHC-002
(Continued)**

The presentation of these records and reviews by Village Council should be noted in Council's minutes. Council should make appropriate inquiries to help determine the continued integrity of financial information such as:

- Are current receipts sufficient to cover expenditures?
- Are actual receipts and expenditures in line with the budget?
- Are receipts and expenditures in line with prior years?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted for?
- Are anticipated receipts being received in a timely manner?

The information obtained as a result of such reviews and inquiries will provide important data necessary to properly manage the Village. The Village Clerk-Treasurer, Council and Mayor should become familiar with the Ohio Compliance Supplement, which has been provided to the Village, and use this as a tool to assist them in complying with applicable Ohio laws and regulations.

Council indicated they will be more active in accounting matters and supervising financial affairs.

FINDING NUMBER 2005-VMCHC-003

Material Weakness - Bank Reconciliations

As an established control procedure, the current Clerk-Treasurer performs bank to book reconciliations on a monthly basis. Numerous errors were found in these reconciliation reports during the audit; the errors have caused variances between the cashbook fund balance and bank balance. The errors found were erroneous deposits in transit, added to the system to increase the system cash balances and, allow the Clerk/Treasurer to write checks. Since the Village's bank reconciliation reports are not reviewed by anyone other than the Clerk/Treasurer, the errors were not detected and corrected timely.

The Village's cash balances were overstated at December 31, 2005 by \$2,624 and at December 31, 2004 by \$5,792. The financial statements have been adjusted to reflect the above amounts.

The monthly bank reconciliations should be presented and reviewed by someone other than the person performing the reconciliation, such as a member of Village Council. The individual(s) should review the monthly reconciliations to provide assurance that the amounts reported are accurate. The individual(s) also should sign and date the reconciliations as evidence the review has been performed. Management agrees and will take appropriate actions to correct in the future.

**VILLAGE OF MURRAY CITY
HOCKING COUNTY**

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

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

FINDING NUMBER 2005-VMCHC-004

Noncompliance Citation

Ohio Revised Code Section 5705.39 states, in part, that "... The total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission..." This section also provides that no appropriation measure shall become effective until the Village obtains the County Auditor’s certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources. Contrary to this requirement, the following funds had total appropriations in excess of estimated resources plus carryover balances:

	<u>2005</u>		
<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Enterprise-Water Operating Fund	\$ 81,594	\$ 88,011	\$(6,417)
Debt Service-Other Debt Service	\$ -0-	\$ 2,300	\$(2,300)
Special Revenue-Street Fund	\$ 26,946	\$ 28,406	\$(1,406)

The Village Council should monitor appropriations versus estimated resources to help avoid overspending.

The Village Council will carefully monitor all budgetary items.

FINDING NUMBER 2005-VMCHC-005

Noncompliance Citation

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

We noted the following funds had expenditures plus encumbrances that exceeded appropriations at December 31, 2005:

	<u>Approved Appropriations</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Special Revenue – FEMA 2004	\$ -0-	\$ 1,084	\$(1,084)

**VILLAGE OF MURRAY CITY
HOCKING COUNTY**

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

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

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

We noted the following funds had expenditures plus encumbrances that exceeded appropriations at December 31, 2004:

Fund	Approved Appropriations	Budgetary Expenditures	Variance
Enterprise – Water Operating	\$ 76,000	\$ 82,535	\$(6,535)

The Clerk-Treasurer should deny payment requests exceeding appropriations, as required by Ohio Rev. Code Section 5705.41(B). We recommend Village Council and the Clerk-Treasurer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations.

The Clerk-Treasurer will review budgetary requirements and implement as necessary.

FINDING NUMBER 2005-VMCHC-006

Noncompliance Citation

Section 5705.10, Revised Code, prohibits the District from having negative fund balances. The Water Operating Fund was found to have negative cash fund balances at December 31, 2005 and 2004 of \$ 4,406 and \$2,270 respectively.

The Village increased water rates during 2005. The increased water rates will give the Village increased cash balances.

VILLAGE OF MURRAY CITY
HOCKING COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2003-001	Contrary to Ohio Rev. Code Section 5705.41(D)(1), the Village did not properly certify all expenditures.	NO	Repeated as finding # 2005-VMCHC-001.



Mary Taylor, CPA
Auditor of State

VILLAGE OF MURRAY CITY

HOCKING 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
MARCH 15, 2007