



Mary Taylor, CPA  
Auditor of State



VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY

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**Mary Taylor, CPA**  
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Village of Proctorville  
Lawrence County  
P.O. Box 406  
Proctorville, Ohio 45669

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 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.

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

**Mary Taylor, CPA**  
Auditor of State

July 27, 2007

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Proctorville  
Lawrence County  
P.O. Box 406  
Proctorville, Ohio 45669

To the Village Council:

We have audited the accompanying financial statements of the Village of Proctorville, Lawrence County, Ohio (the Village), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006 and 2005, or its changes in financial position or cash flows, where applicable 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 Proctorville, Lawrence County, as of December 31, 2006 and 2005, 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 July 27, 2007, 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

July 27, 2007



VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$33,572	\$7,618	\$41,190
Intergovernmental Receipts	28,712	40,082	68,794
Fines, Licenses, and Permits	83,413		83,413
Rent Revenue	18,352		18,352
Miscellaneous	5,692		5,692
<b>Total Cash Receipts</b>	<u>169,741</u>	<u>47,700</u>	<u>217,441</u>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	98,213	6,090	104,303
Leisure Time Activities	400		400
Transportation		24,406	24,406
General Government	41,387		41,387
<b>Total Cash Disbursements</b>	<u>140,000</u>	<u>30,496</u>	<u>170,496</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>29,741</u>	<u>17,204</u>	<u>46,945</u>
<b>Other Financing (Disbursements):</b>			
Other Financing Uses	<u>(492)</u>		<u>(492)</u>
<b>Total Other Financing (Disbursements)</b>	<u>(492)</u>	<u>0</u>	<u>(492)</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	29,249	17,204	46,453
Fund Cash Balances, January 1	<u>20,351</u>	<u>17,657</u>	<u>38,008</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$49,600</b></u>	<u><b>\$34,861</b></u>	<u><b>\$84,461</b></u>
Reserves for Encumbrances, December 31	<u>\$399</u>	<u>\$39</u>	<u>\$438</u>

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

**VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$111,929	\$0	\$111,929
Total Operating Cash Receipts	<u>111,929</u>	<u>0</u>	<u>111,929</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	44,423		44,423
Supplies and Materials	25,401		25,401
Capital Outlay	4,165		4,165
Total Operating Cash Disbursements	<u>73,989</u>	<u>0</u>	<u>73,989</u>
Operating Income/(Loss)	<u>37,940</u>	<u>0</u>	<u>37,940</u>
<b>Non-Operating Cash Receipts:</b>			
Other Non-Operating Receipts		86,093	86,093
Total Non-Operating Cash Receipts	<u>0</u>	<u>86,093</u>	<u>86,093</u>
<b>Non-Operating Cash Disbursements:</b>			
Redemption of Principal	15,360		15,360
Interest and Other Fiscal Charges	12,065		12,065
Other Non-Operating Cash Disbursements		88,046	88,046
Total Non-Operating Cash Disbursements	<u>27,425</u>	<u>88,046</u>	<u>115,471</u>
Net Receipts Over/(Under) Disbursements	10,515	(1,953)	8,562
Fund Cash Balances, January 1	<u>54,663</u>	<u>2,388</u>	<u>57,051</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$65,178</u></b>	<b><u>\$435</u></b>	<b><u>\$65,613</u></b>
Reserve for Encumbrances, December 31	<u>\$87</u>	<u>\$0</u>	<u>\$87</u>

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

**VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$27,172	\$6,484	\$33,656
Intergovernmental Receipts	30,621	38,779	69,400
Fines, Licenses, and Permits	75,414		75,414
Rent Revenue	18,352		18,352
Miscellaneous	4,729	275	5,004
	<u>156,288</u>	<u>45,538</u>	<u>201,826</u>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	83,673	8,445	92,118
Leisure Time Activities	137		137
Transportation		36,232	36,232
General Government	49,873		49,873
	<u>133,683</u>	<u>44,677</u>	<u>178,360</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>22,605</u>	<u>861</u>	<u>23,466</u>
<b>Other Financing (Disbursements):</b>			
Other Financing Uses	<u>(6,089)</u>		<u>(6,089)</u>
Total Other Financing (Disbursements)	<u>(6,089)</u>	<u>0</u>	<u>(6,089)</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	16,516	861	17,377
Fund Cash Balances, January 1 - Restated	<u>3,835</u>	<u>16,796</u>	<u>20,631</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$20,351</u></b>	<b><u>\$17,657</u></b>	<b><u>\$38,008</u></b>
Reserves for Encumbrances, December 31	<u>\$399</u>	<u>\$39</u>	<u>\$438</u>

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

VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH 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>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$110,034	\$0	110,034
Total Operating Cash Receipts	<u>110,034</u>	<u>0</u>	<u>110,034</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	39,109		39,109
Supplies and Materials	34,006		34,006
Capital Outlay	2,763		2,763
Total Operating Cash Disbursements	<u>75,878</u>	<u>0</u>	<u>75,878</u>
Operating Income/(Loss)	<u>34,156</u>	<u>0</u>	<u>34,156</u>
<b>Non-Operating Cash Receipts:</b>			
Other Non-Operating Receipts		83,705	83,705
Total Non-Operating Cash Receipts	<u>0</u>	<u>83,705</u>	<u>83,705</u>
<b>Non-Operating Cash Disbursements:</b>			
Capital Outlay	1,719		1,719
Redemption of Principal	12,425		12,425
Interest and Other Fiscal Charges	15,000		15,000
Other Non-Operating Cash Disbursements		84,165	84,165
Total Non-Operating Cash Disbursements	<u>29,144</u>	<u>84,165</u>	<u>113,309</u>
Net Receipts Over/(Under) Disbursements	5,012	(460)	4,552
Fund Cash Balances, January 1 - Restated	<u>49,651</u>	<u>2,848</u>	<u>52,499</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$54,663</u></b>	<b><u>\$2,388</u></b>	<b><u>\$57,051</u></b>
Reserve for Encumbrances, December 31	<u>\$87</u>	<u>\$0</u>	<u>\$87</u>

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

**VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Proctorville, Lawrence County (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water utilities, maintenance of roads and police and fire protection.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

**B. Accounting Basis**

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. The Village 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 include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Cash and Investments**

The Village has one demand deposit account and no investments.

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

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

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

**VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**D. Fund Accounting (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 significant Enterprise Fund:

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

**4. Fiduciary Funds**

Fiduciary funds include agency funds.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for activities of the Village's Mayor's Court.

**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 level of control for the State Highway, Firefighting and Emergency Funds and fund and function level of control for the General, Street Maintenance and Repair, Water and Water Deposit Funds, 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 individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

**VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**E. Budgetary Process (Continued)**

A summary of 2006 and 2005 budgetary activity appears in Note 3.

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

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

**G. Accumulated Leave**

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

**2. Equity in Pooled Cash**

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

	2006	2005
Demand deposits	\$150,074	\$95,059

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

At December 31, 2005 and 2006, deposits of \$4,309.88 and \$58,766.24, respectively, were not insured or collateralized, contrary to Ohio law.

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$158,956	\$169,741	\$10,785
Special Revenue	46,808	47,700	892
Enterprise	116,001	111,929	(4,072)
Total	\$321,765	\$329,370	\$7,605

**VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**3. Budgetary Activity (Continued)**

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$183,499	\$140,891	\$42,608
Special Revenue	60,043	30,535	29,508
Enterprise	162,087	101,501	60,586
Total	\$405,629	\$272,927	\$132,702

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$220,000	\$156,288	(\$63,712)
Special Revenue	40,000	45,538	5,538
Enterprise	117,000	110,034	(6,966)
Total	\$377,000	\$311,860	(\$65,140)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$223,299	\$140,171	\$83,128
Special Revenue	51,543	44,716	6,827
Enterprise	157,087	105,109	51,978
Total	\$431,929	\$289,996	\$141,933

Contrary to Ohio law, the Village Council did not approve appropriations at the fund, function, and object level of control for all funds.

**4. Property Tax**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted 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 financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half 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.

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.



**VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**4. Property Tax (Continued)**

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

**5. Debt**

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Water Treatment Plant Mortgage Loan	<u>\$227,320</u>	6.15%
Total	<u><u>\$227,320</u></u>	

The Water Treatment Plant Mortgage Loan relates to a water treatment plant expansion project. The Water Loan is collateralized by water receipts.

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

	<u>Water Plant Mortgage Loan</u>
Year ending December 31:	
2007	<u>\$27,425</u>
2008	<u>223,231</u>
Total	<u><u>\$250,656</u></u>

**6. Retirement Systems**

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

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

**VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. Risk Management**

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

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

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

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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

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

**VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. Risk Management (Continued)**

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005.

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	(15,875,741)	(15,994,168)
Retained earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	(863,163)	(1,068,245)
Retained earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Government's share of these unpaid claims collectible in future years is approximately \$17,892. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<b><u>Contributions to PEP</u></b>	
2004	\$10,921
2005	\$11,189
2006	\$8,946

**VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. Risk Management (Continued)**

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**8. Restatement of Beginning Balances**

The January 1, 2005 balances were restated as follows:

Fund Type	12/31/2004 Balance	Restated 1/1/2005 Balance	Restatement
General	\$7,470	\$3,835	\$3,635
Special Revenue	14,881	16,796	(1,915)
Enterprise	53,148	49,651	3,497
Total	<u>\$75,499</u>	<u>\$70,282</u>	<u>\$5,217</u>

These restatements were due to inaccurate cash reconciliations at December 31, 2004.



# 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 Proctorville  
Lawrence County  
P.O. Box 406  
Proctorville, Ohio 45669

To the Village Council:

We have audited the financial statements of the Village of Proctorville, Lawrence County, Ohio (the Village), as of and for the years ended December 21, 2006 and 2005, and have issued our report thereon dated July 27, 2007 wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We 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 expressing our opinion on the financial statements, but not to opine 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2006-002 and 2006-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2006-003 is also a material weakness.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated July 27, 2007.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2006-001 and 2006-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated July 27, 2007.

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



**Mary Taylor, CPA**  
Auditor of State

July 27, 2007

VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

**Noncompliance Citation**

Ohio Rev. Code Section 135.18 (A) provides, in part, that the treasurer of a political subdivision must require the depository to provide security equal to the funds on deposit at all times. ORC Section 135.18 (B) provides that such security may consist, in part, of federal deposit insurance, surety company bonds, or pledged securities.

Funds on deposit belonging to the Village were not secured at December 31, 2005 and December 31, 2006. The amount uninsured and uncollateralized was \$4,309.88 at December 31, 2005 and \$58,766.24 at December 31, 2006.

We recommend the Village require its depository to provide as security an amount equal to the funds on deposit at all times.

FINDING NUMBER 2006-002

**Noncompliance Citation/Significant Deficiency**

Ohio Rev. Code Section 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.

VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-002 (Continued)

Noncompliance Citation/Significant Deficiency (Continued)

Ohio Rev. Code Section 5705.41(D)(1) (Continued)

**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.

In 2005 and 2006, sixty eight percent and seventy-one percent, respectively, of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

We recommend that no orders involving the expenditure of money be made unless the Village Clerk has certified that the amount required has been lawfully appropriated and is in the treasury or in the process of collection.



VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-003

**Material Weakness**

**Monthly Reconciliations**

Accurate monthly bank reconciliations should be maintained by the Village Clerk to ensure that all monies receipted and disbursed were accurately recorded. The Village Clerk did prepare bank reconciliations on a monthly basis; however, the bank balances were not correctly reconciled to the cashbook balances. This was due, in part, to the Clerk not utilizing all outstanding checks in his outstanding check list. There were also numerous posting errors for OPERS payments and water receipts which were not discovered timely, bank service charges and banking fees which were not posted as disbursements, returned deposits which were not deducted from receipts, and checks which were voided from the system but later cleared the bank. These factors resulted in the Village being out of balance with the bank at December 31, 2005 and December 31, 2006, incorrect balances in individual funds, and the Village's annual financial report for 2005 and 2006 being incorrect. This also resulted in additional time and cost to the Village for accounting services to reconcile the Village's books to the bank, to determine the correct individual fund balances, and to determine proper receipts and disbursements classifications to the financial statements.

We recommend the Village Clerk reconcile bank balances to the fund balances each month and that the bank reconciliation be presented to Council for review. We further recommend the Clerk review his postings of receipts and disbursements to ensure that the proper amounts were posted as well as post all bank services charges and banking fees.

**Officials' Response :** We did not receive a response from officials to the findings reported above.

**VILLAGE OF PROCTORVILLE  
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Ohio Rev. Code Section 742.33 – unpaid balances to Ohio Police and Fire	Yes	
2004-002	Estimated receipts exceeded actual receipts	No	Partially Corrected. Reissued in Management Letter.



**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OR PROCTORVILLE**

**LAWRENCE 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  
SEPTEMBER 20, 2007**