



**VILLAGE OF MCCLURE
HENRY COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009



Mary Taylor, CPA
Auditor of State

VILLAGE OF MCCLURE
HENRY COUNTY

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Mary Taylor, CPA
Auditor of State

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

To the Village Council:

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 9, 2010

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of McClure, Henry County, (the Village) as of and for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. The Auditor of State served during the years ended December 31, 2009 and 2008 as the Village's financial supervisor under Ohio Rev. Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to the audit the Village because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code. §118.04. 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 § 118.05(G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code § 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient evidential matter to support completeness of the income tax revenues reported in the General Fund and the charges for services revenue in the Enterprise Funds. The income tax revenues represent 49 percent of the total revenue of the General Fund in 2009 and 48 percent of the total revenue of General Fund in 2008. The charges for services revenue represent 97 percent of the total revenue of the Enterprise Fund in 2009 and 98 percent of the total revenue of the Enterprise Fund in 2008.

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2009 and 2008, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidential matter for the General Fund, municipal income tax revenue and the Enterprise Funds charges for services revenue, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of McClure, Henry County, as of December 31, 2009 and 2008, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As discussed in Note 9 to the financial statements, the Village has significant fund balance deficits in certain funds. Note 9 describe Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. The Village was placed in fiscal emergency by the Auditor of State on September 10, 2010.

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 December 9, 2010, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with

Village of McClure
Henry County
Independent Accountants' Report
Page 2

Government Auditing Standards. You should read it in conjunction with this report in assessing the results of our audit.

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

Mary Taylor, CPA
Auditor of State

December 9, 2010

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$24,972	\$5,474		\$30,446
Municipal Income Tax	78,474			78,474
Intergovernmental	29,602	30,716		60,318
Fines, Licenses and Permits	19,421			19,421
Earnings on Investments	859	5		864
Miscellaneous	7,869			7,869
Total Cash Receipts	<u>161,197</u>	<u>36,195</u>		<u>197,392</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	85,311			85,311
Leisure Time Activities	1,800			1,800
Transportation		33,664		33,664
General Government	93,521			93,521
Total Cash Disbursements	<u>180,632</u>	<u>33,664</u>		<u>214,296</u>
Total Cash Receipts Over/(Under) Cash Disbursements	(19,435)	2,531		(16,904)
Fund Cash Balances, January 1	<u>(33,311)</u>	<u>32,645</u>	<u>\$49,385</u>	<u>48,719</u>
Fund Cash Balances, December 31	<u>(\$52,746)</u>	<u>\$35,176</u>	<u>\$49,385</u>	<u>\$31,815</u>
Reserve for Encumbrances, December 31	<u>\$1,999</u>	<u>\$187</u>		<u>\$2,186</u>

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

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$304,567
Fines, Licenses and Permits	8,158
Total Operating Cash Receipts	312,725
Operating Cash Disbursements:	
Personal Services	85,665
Employee Fringe Benefits	33,260
Contractual Services	42,446
Supplies and Materials	67,416
Total Operating Cash Disbursements	228,787
Operating Income	83,938
Non-Operating Cash Disbursements:	
Redemption of Principal	42,608
Interest and Other Fiscal Charges	65,677
Total Non-Operating Cash Disbursements	108,285
Excess of Cash Disbursements Over Cash Receipts	(24,347)
Fund Cash Balances, January 1	39,180
Fund Cash Balances, December 31	\$14,833
Reserve for Encumbrances, December 31	\$1,067

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

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property and Local Taxes	\$24,931	\$5,841		\$30,772
Municipal Income Tax	82,611			82,611
Intergovernmental	35,747	33,502		69,249
Charges for Services	2,340			2,340
Fines, Licenses and Permits	17,895			17,895
Earnings on Investments	300	844		1,144
Miscellaneous	9,921			9,921
	173,745	40,187		213,932
Cash Disbursements:				
Current:				
Security of Persons and Property	112,985			112,985
Leisure Time Activities	1,727			1,727
Transportation		60,093		60,093
General Government	97,728			97,728
	212,440	60,093		272,533
Total Cash Disbursements over Cash Receipts	(38,695)	(19,906)		(58,601)
Other Financing Receipts:				
Other Financing Sources		2,266		2,266
Excess of Cash Disbursements over Cash Receipts and Other Financing Receipts	(38,695)	(17,640)		(56,335)
Fund Cash Balances, January 1	5,384	50,285	\$49,385	105,054
Fund Cash Balances, December 31	(\$33,311)	\$32,645	\$49,385	\$48,719
Reserve for Encumbrances, December 31	\$1,999	\$187		\$2,186

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

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$295,069
Fines, Licenses and Permits	6,787
	301,856
Operating Cash Disbursements:	
Personal Services	78,720
Employee Fringe Benefits	32,830
Contractual Services	33,991
Supplies and Materials	92,818
	238,359
Operating Income	63,497
Non-Operating Cash Disbursements:	
Redemption of Principal	44,722
Interest and Other Fiscal Charges	69,143
	113,865
Excess of Cash Disbursements Over Cash Receipts	(50,368)
Fund Cash Balances, January 1	89,548
Fund Cash Balances, December 31	\$39,180
Reserve for Encumbrances, December 31	\$1,067

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

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of McClure, Henry County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, general government services and police services.

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

B. 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. Deposits and Investments

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

The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

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

Permissive Motor Vehicle License Fund – This fund receives license tax money from the State and County Auditor for constructing, maintaining, and repairing Village streets.

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

Capital Projects Fund – This fund receives income tax revenues. The revenues are to be used for capital outlay projects.

4. Enterprise Funds

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

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

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, object level of control and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

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

A summary of 2009 and 2008 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

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 Deposits

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:

	<u>2009</u>	<u>2008</u>
Demand deposits	\$42,128	\$58,782
Certificates of deposit	4,520	29,117
Total deposits	<u>\$46,648</u>	<u>\$87,899</u>

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

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

3. Budgetary Activity

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

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General		\$161,197	\$161,197
Special Revenue		36,195	36,195
Enterprise		312,725	312,725
Total		\$510,117	\$510,117

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$133,479	\$182,631	(\$49,152)
Special Revenue	27,307	33,851	(6,544)
Enterprise	307,860	338,139	(30,279)
Total	\$468,646	\$554,621	(\$85,975)

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General		\$173,745	\$173,745
Special Revenue		42,453	42,453
Enterprise		301,856	301,856
Total		\$518,054	\$518,054

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$183,083	\$214,439	(\$31,356)
Special Revenue	22,887	60,280	(37,393)
Enterprise	331,610	353,291	(21,681)
Total	\$537,580	\$628,010	(\$90,430)

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

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

4. Property Tax (Continued)

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.

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

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, 2009, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sanitary Sewer Mortgage Revenue Bonds	\$1,079,200	5.125%
First Mortgage Waterworks Revenue Bonds	140,000	5%
Ohio Public Works Commission Loan	67,919	4%
Ohio Public Works Commission Loan	10,571	
General Obligation Loan	<u>103,169</u>	5.5%
Total	<u><u>\$1,400,859</u></u>	

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

The First Mortgage Waterworks System bonds were issued for potable water, payable annually over 20 years. The Village has agreed to set utility rates sufficient to cover the Mortgage Revenue Bonds' debt service requirements. The Village granted to holders of the Bonds a mortgage upon all property, real, personal and mixed and revenue constituting the Systems of the Village.

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

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

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

6. Debt (Continued)

The Village entered into a general obligation loan with Huntington National Bank for the purchase and renovation of real estate property in 2006. The Village will repay the loans in monthly installments of \$787.11, including interest, over 20 years. The Village's taxing authority collateralized the bonds.

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

Year ending December 31:	Sanitary Sewer Mortgage Revenue Bonds	First Mortgage Waterworks Revenue Bonds	Ohio Public Works Commission Sewer Loan	Ohio Public Works Commission Water Loan	General Obligation Loan
2010	\$74,709	\$28,000	\$9,505	\$1,762	\$9,445
2011	74,715	27,950	9,504	1,762	9,445
2012	74,669	27,850	9,505	1,762	9,445
2013	74,673	26,700	9,504	1,762	9,445
2014	74,619	27,550	9,505	1,762	9,445
2015-2019	373,428	27,300	28,512	1,761	47,226
2020-2024	373,414				47,226
2025-2029	373,293				18,595
2030-2034	373,437				
2035-2036	149,343				
Total	<u>\$2,016,300</u>	<u>\$165,350</u>	<u>\$76,035</u>	<u>\$10,571</u>	<u>\$160,272</u>

7. Retirement System

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 2009 and 2008, OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village owed \$329 in contributions to OPERS as of December 31, 2009.

8. 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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York),

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

8. Risk Management (Continued)

functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims which exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2009, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets	\$36,374,898	\$35,769,535
Liabilities	<u>(15,256,862)</u>	<u>(15,310,206)</u>
Net Assets	<u>\$21,118,036</u>	<u>\$20,459,329</u>

At December 31, 2009 and 2008, respectively, the liabilities above include approximately \$14.1 million and \$13.7 million of estimated incurred claims payable. The assets above also include approximately \$13.7 million and \$12.9 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2009 and 2008, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2009, the Village's share of these unpaid claims collectible in future years is approximately \$13,000.

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.

<u>Contributions to PEP</u>	
<u>2009</u>	<u>2008</u>
\$14,312	\$14,318

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

8. Risk Management (Continued)

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. 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.

9. Deficit Fund Balances/Subsequent Events

As of December 31, 2009, the General fund balance was negative \$52,746. Other deficit balances at December 31, 2009 include the Street Maintenance and Repair Fund with a balance of (\$5,461), the Water Fund with a balance of (\$46,966) and the Sewer Fund with a balance of (\$71,602).

The Village of McClure has taken the following steps toward recovery:

- On January 1, 2010, the Village transferred utility services to the Henry County Water and Sewer District.
- The police department was eliminated as of January 12, 2010.
- There were no pay raises.

The Local Government Services Division of the Auditor of State's office was contacted by the Village regarding the financial difficulties, and began a fiscal analysis under the criteria established in ORC Chapter 118 in 2009. The Village has been declared in fiscal emergency due to the significant deficit fund balance in the General fund, fulfilling Chapter 118 criteria.

10. Noncompliance

Contrary to Ohio Law, the Village reported motor vehicle license tax revenues of \$6,002 in the Permissive Vehicle License Tax Funds, when \$5,552 and \$450, should have been posted to the Street Construction, Maintenance, and Repair Fund and the State Highway Fund respectively in 2008. In 2008, the Village also posted gasoline excise tax of \$1,560 to the General Fund when \$1,443 belonged to the Street Construction, Maintenance, and Repair Fund and \$117 belonged to the State Highway Fund.

The Village posted advances without proper approval of Council and a portion of those advances could not legally be made.

At December 31, 2009 and 2008, the General Fund, Street Construction, Maintenance, and Repair Fund, Water Fund, and Sewer Fund had negative fund balances ranging from \$5,461 to \$71,602.

The Village has not established the water sinking fund as required by Village ordinances authorizing the issuance of the mortgage revenue bonds. Also, the Village has not set utility rates sufficient to operate and maintain the water and sewer systems and pay debt principal and interest as required by Village ordinances authorizing the issuance of mortgage revenue bonds and by the Ohio Public Works Commission loan agreement. The requirements of submitting financial and/or budgetary information to the Ohio Public Works Commission and the Rural Development of the

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

10. Noncompliance

U.S. Department of Agriculture was not performed contrary to the loan agreements. The Village has also not returned water deposits to customers in accordance with the Village Ordinance.

At December 31, 2009 and 2008, appropriations exceeded estimated resources in all funds by \$306,793 and \$330,543, respectively. Posted appropriations exceeded the amount approved by Council in 2009 in the General Fund, the Street Construction Maintenance, and Repair Fund, and the Sewer Fund in 2009 by \$87,509, \$19,260, and \$39,466, respectively. Posted appropriations exceeded the amount approved by Council in 2008 in the General Fund, Street Construction Maintenance, and Repair Fund, and Water Fund by \$63,486, \$43,225, and \$12,000 respectively.

At December 31, 2009 and 2008, expenditures exceeded appropriations in the General Fund, Permissive Motor Vehicle License Tax Fund, and Sewer Fund by \$49,152, \$8,104, and \$21,948, respectively. At December 31, 2008, expenditures exceeded appropriations in the General, Fund, Street Construction Maintenance, and Repair Fund, and Water Fund by \$31,356, \$37,394, and \$2,834, respectively.

Contrary to Ohio Administrative law, supporting documentation was not maintained for all disbursements.



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

To the Village Council:

We have audited the financial statements of the Village of McClure, Henry County (the Village) as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated December 9, 2010, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted that the Village experienced deficit fund balances in certain funds. Further, we noted the Auditor of State served during the year ended December 31, 2009 as the Village's financial supervisor under Ohio Revised Code § 118.05.05(G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State may assume broad management powers, duties and functions under Ohio Revised Code § 118.04. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 118.05(G) requires the Auditor of State to provide these supervisory services and 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 qualified our report on the income tax revenue in the General Fund and the charges for services revenue in the Enterprise Funds because we were unable to obtain sufficient evidential matter to support completeness of income tax revenue in the General Fund and charges for services revenue in the Enterprise Funds. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-005, 2009-012, and 2009-018 through 2009-021 described in the accompanying schedule of findings to be material weaknesses.

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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2009-001 through 2009-017.

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

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



Mary Taylor, CPA
Auditor of State

December 9, 2010

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

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

<i>Finding Number</i>	2009-001
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Finding for Recovery

During the December 10, 2007 Council meeting, Council voted to approve the salary for Miguel Trevino, former Police Chief in the amount of \$31,000 annually (\$596.15 weekly). On November 24, 2008, Council reduced his salary to \$12 per hour for 32 hours per week (\$384 weekly). At the April 27, 2009 Council meeting, Council temporarily increased his hours from May 1, 2009 to September 7, 2009 to 40 hours per week at \$12 per hour (\$480 weekly).

Based on the approved pay rates, Mr. Trevino should have been paid \$29,939.05 for 2008 and \$21,696 in 2009; however, the Village compensated Mr. Trevino in the amount of \$34,999.50 in 2008 and \$27,366 in 2009. This resulted in total overpayment of \$10,730 (\$5,060 in 2008 and \$5,670 in 2009).

The resulting overpayments to the former Police Chief are shown below:

	Total Earned Compensation	Total Amount Paid	Overpayment
2008:			
\$596.15 per week for 47 weeks	\$ 28,019.05		
\$384 per week for 5 weeks	1,920.00		
2008 Total	29,939.05	\$ 34,999.50	\$ 5,060.45
2009:			
\$384 per week for 34 weeks	\$ 13,056.00		
\$480 per week for 18 weeks	8,640.00		
2009 Total	21,696.00	27,366.00	5,670.00
Total Overpayment			\$ 10,730.45

Connie Ehlers, Clerk-Treasurer signed the warrants resulting in improper payments to Mr. Trevino.

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Miguel Trevino, former Police Chief, in the amount of \$10,730, and in favor of the Village of McClure's General Fund.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Revised Code § 9.39; *State, ex. rel. Village of Linndale v. Masten*, 18 Ohio St.

3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Atty Gen. No. 80-074.

Connie Ehlers and her bonding company, Auto-Owners (Mutual) Insurance Company are jointly and severally liable in the amount of \$10,730, and in favor of the Village of McClure's General Fund to the extent recovery is not obtained from Miguel Trevino.

<i>Finding Number</i>	2009-002
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Finding for Recovery

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

Auditor of State Bulletin 2003-005, Expenditure of Public Funds/Proper "Public Purpose" states governmental entities may not make expenditures of public monies unless they are for a valid public purpose. There are two criteria which demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced. Additionally, the Bulletin indicates the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Bulletin further states it will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

1.	<p>Shopping cards were purchased in 2008 at Wal-Mart by Miguel Trevino, former Police Chief, using the Village's Wal-Mart credit card. Mr. Trevino purchased three shopping cards at the Bowling Green, Ohio Wal-Mart store and one shopping card at a North Myrtle Beach, South Carolina, Wal-Mart store for a total of \$725.</p> <p>There is no indication these purchases were approved by the Village Council ahead of time. Additionally, Mr. Trevino did not provide documentation to show what these shopping cards were used for. Without appropriate documentation it is not possible to determine if the purchases included items which would be considered for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the Village's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures which are not for a proper public purpose.</p>		\$725.00
2.	<p>During the period of January 1, 2008, through December 31, 2009, the Clerk-Treasurer withheld money from payroll wages of Miguel Trevino, former Police Chief, and paid his personal bills with the payroll withholdings. The total of the Mr. Trevino's personal bills paid by the Village</p>		

	Personal Bills		
	Auto Insurance for 2008		\$330.00
	Personal Cell phone charges for 2008		3,949.55
	Personal Cell phone charges for 2009		<u>2,362.94</u>
	Total Personal Bills paid by Village		6,642.49
	Payroll Withholdings to Pay Personal Bills:		
	2008 Withholdings		3,650.96
	2009 Withholdings		<u>600.00</u>
	Total Withholding		4,250.96
	Personal Bills in Excess of Payroll Withholdings		2,391.53
3.	During the period of January 1, 2008, through December 31, 2009, Miguel Trevino, former Police Chief, received the following checks as reimbursement of expenses for which there was no supporting documentation, such as an original invoice or receipt, to determine if the payments included items which would not be considered a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the Village's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures which are not for a proper public purpose.		
	Date and Purpose Per Check Stub:		
	May 16, 2008 – Two recorders		127.78
	June 15, 2008 – Air conditioning repair		129.00
	March 24, 2009 – Ink refills		<u>80.40</u>
	Total unsupported purchases		337.18
4.	During the period of January 1, 2008 through December 31, 2009, the Village paid for a cellular phone to be used by Miguel Trevino in his capacity as the Village Police Chief. During this period, there were \$283 in "premium" cell phones charges on the cell phone used by Miguel Trevino, former Police Chief. Such charges are not considered a proper public purpose as they are not deemed to benefit the general good of all Village residents. The Village did not enact an ordinance or resolution which demonstrates what public purpose such charges serve, nor did the Village have a policy permitting these types of expenditures. These "premium" cell phone charges included the following:		
	Ringtones		39.84
	Ringback Tones		21.78
	Games and Entertainment		203.62
	Mobile Web Day Pass and Myoutdoormobile		<u>17.94</u>
	Total Premium cell phone charges		283.18
	Total illegal expenditures		<u>\$3,736.89</u>

Connie Ehlers, Clerk-Treasurer, signed the warrants resulting in improper payments of Village funds. In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Miguel Trevino, former Police Chief, in the

amount of \$3,736 in favor of the Village of McClure's General Fund.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Revised Code § 9.29; *State, ex. rel. Village of Linndale v. Masten*, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent recovery or restitution is not obtained from the person who unlawfully obtained such funds or property. 1980 Op. Atty Gen. No. 80-074.

Connie Ehlers and her bonding company, Auto-Owners (Mutual) Insurance Company, are jointly and severally liable in the amount of \$3,736, and in favor of the Village of McClure's General Fund to the extent recovery is not obtained from Miguel Trevino.

<i>Finding Number</i>	2009-003
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Finding for Recovery

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

Auditor of State Bulletin 2003-005, Expenditure of Public Funds/Proper "Public Purpose" states governmental entities may not make expenditures of public monies unless they are for a valid public purpose. There are two criteria which demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced. Additionally, the Bulletin indicates the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Bulletin further states it will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

On May 25, 2008, a shopping card valued at \$200 was purchased at the Wal-Mart Store in Bowling Green, Ohio and charged to the Village's Wal-Mart credit card. There is no indication this purchase was approved by the Village Council before the purchase was made. Additionally, there was no documentation to show what this shopping card was used for. Without appropriate documentation it is not possible to determine if the purchase included items which would be considered for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the Village's finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures which are not for a proper public purpose.

Connie Ehlers, Clerk-Treasurer, signed the warrant resulting in improper payment of Village funds related to this purchase.

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Connie Ehlers, Clerk-Treasurer, and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, in the amount of \$200, and in favor of the Village of McClure's General Fund.

<i>Finding Number</i>	2009-004
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Finding for Recovery

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

Auditor of State Bulletin 2003-005, Expenditure of Public Funds/Proper “Public Purpose” states governmental entities may not make expenditures of public monies unless they are for a valid public purpose. There are two criteria which demonstrate whether an expenditure is for a public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced. Additionally, the Bulletin indicates the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Bulletin further states it will issue findings for recovery for such expenditures as manifestly arbitrary and incorrect.

- During 2008 and 2009, Connie Ehlers, Clerk-Treasurer, withheld money from payroll wages of Miguel Trevino, former Police Chief, to repay a personal loan due to Mrs. Ehlers. In doing so, Mrs. Ehlers issued Village checks to herself in excess of the amount withheld from Mr. Trevino’s payroll to repay the loan, as shown below:

	Amount
Personal Loan Payments to Clerk-Treasurer:	
2008	\$1,700
2009	<u>1,180</u>
Total Personal Loan Payment to Clerk-Treasurer	2,880
Police Chief Payroll Withholdings for the Loan:	
2008	1,150
2009	<u>1,080</u>
Total Police Chief Payroll Withholdings for Loan	<u>2,230</u>
Overpayment to Clerk-Treasurer	<u>\$650</u>

The Village did not enact an ordinance, resolution, or policy permitting this practice. Mr. Trevino’s payroll withholdings were not enough to cover the total amount of the payments made to the Clerk-Treasurer for her personal loan to Mr. Trevino. Consequently, the payments to Mrs. Ehlers in excess of Mr. Trevino’s payroll withholdings are illegal expenditures of public moneys.

During the period of January 1, 2008, to December 31, 2009, Connie Ehlers, Clerk-Treasurer, received the following checks as reimbursement of expenses for which there was no supporting documentation, such as an original invoice or receipt, to determine if the payments included items which would not be considered a proper public purpose:

Date	Purpose as Stated on Check Stub	Amount
January 16, 2008	Ink cartridge and personal flowers	\$175.00
March 15, 2008	Petty cash – confidential	100.00
November 21, 2008	Reimbursements (no explanation provided)	100.00
February 23, 2009	Alltel bill	500.00
April 10, 2008	Supplies and drug buy	171.72
December 18, 2009	Reimbursement (no explanation provided)	<u>162.00</u>
	Total	<u>\$1,208.72</u>

Without appropriate documentation, it is not possible to determine if the purchases included items which would be considered for a proper public purpose. The failure to maintain adequate support for expenditures could result in a loss of accountability over the Village’s finances, making it difficult to identify errors which could go undetected, and possibly result in expenditures which are not for a proper public purpose.

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Connie Ehlers, Clerk-Treasurer, and her bonding company, Auto-Owners (Mutual) Insurance Company, jointly and severally, in the amount of \$1,858, and in favor of the Village of McClure’s General Fund.

<i>Finding Number</i>	2009-005
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Noncompliance Citation and Material Weakness

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

Additionally, **Ohio Revised Code § 5705.10(H)** requires that money paid into any fund shall be used only for the purposes for which such fund is established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

This section of law also allows advances to be made under the following circumstances:

- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the “creditor” fund) for the same purpose for which the fund receiving the cash (the “debtor” fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision (Village Council) which must include both a specific statement the transaction is an advance of cash and an indication of the money (fund) from which it is expected repayment will be made.

The following discrepancies were noted:

1. In 2008, \$6,002 in motor vehicle license tax revenue was incorrectly posted to the Permissive Motor Vehicle License Tax Fund, instead of the Street Construction, Maintenance, and Repair Fund, and the State Highway Fund. Gasoline excise tax revenue in the amount of \$1,560 was incorrectly posted to General Fund instead of the Street Construction, Maintenance, and Repair Fund and the State Highway Fund.

2. The following funds had negative fund balances at year end, which is indicative of monies from one fund or funds being used to pay the expenditures of another fund carrying the deficit balances:

Fund	Variance
December 31, 2009:	
General Fund	\$(52,746)
Street Construction Maintenance and Repair Fund	(5,461)
Water Fund	(46,966)
Sewer Fund	(71,602)
December 31, 2008:	
General Fund	\$(33,311)
Street Construction Maintenance and Repair Fund	(17,331)
Water Fund	(41,842)
Sewer Fund	(53,260)

3. In fiscal year 2008, the Village made 19 unauthorized advances which ranged from \$200 to \$25,000. There was no evidence the advances were approved by formal resolution by Council. There was not always statutory authority to use the money in the fund advancing the cash for the same purpose for which the fund receiving the cash was established and subsequently reimbursement from the fund which received the advanced monies violated restrictions on use of the money used to make the reimbursement.

The above errors resulted in a misstatement of financial activity in the respective funds. Improper reporting of revenues and advances could cause management to draw inaccurate conclusions regarding its fiscal position. Management has included audit adjustments in the accompanying financial statements and to the Village's accounting records to correctly post the transactions to the applicable funds.

Financial activity should be properly reported in the accounting ledgers so management can better assess whether or not financial goals are being met on an ongoing basis. As part of the monitoring process, we recommend:

1. Management review its records to make sure all amounts are properly reflected in the appropriate funds.
2. Council monitor the fund balances closely throughout the year and restrict expenditures when necessary.
3. Council approve a fund transfer from fund(s) with more abundant resources provided officials comply with the provisions of Ohio Revised Code §§ 5705.14, 5705.15, and 5705.16 in order to cover funds with negative fund balances.
4. Management officials refer to Auditor of State Bulletin 97-003 for further guidance, if advances are deemed necessary. In addition, if advances are made, they should be made only under the express authority of Council and be made between funds in which the purpose of the fund advancing cash is consistent with the purpose of the fund receiving the money.
5. Financial activity be properly reported in the accounting ledgers so management can better assess whether or not financial goals are being met on an ongoing basis.

As part of the monitoring process, management officials review its records to make sure all Village of

6. amounts are properly reflected in the appropriate funds and sufficient funds are available to pay obligations.

<i>Finding Number</i>	2009-006
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Noncompliance Citation

Village of McClure, Sanitary Sewer System Mortgage Revenue Bonds Ordinance No. 539, Section 6, B(2) and Village of McClure, First Mortgage Waterworks System Revenue Bond Ordinance No. 253, establish Sinking Funds and the amounts to be set aside within each fund for the sewer and water related debt. The purpose of the Sinking Fund is to accumulate, on a monthly basis, the amount to be used toward the semiannual debt (principal and interest) payments.

The Village has not established a Sewer Sinking Fund as required by the Ordinance, which is contrary to the debt covenant.

By not establishing the required fund or setting aside the monies as stated in the Ordinances, the Village may not have funds available to meet a future debt payment if adequate revenues are not generated. It could also result in sanctions being imposed on the Village for noncompliance of a debt covenant.

We recommend management routinely monitor for proper compliance with debt covenants.

The utility operations and utility debt obligations were transferred to the Henry County Water and Sewer District in 2010.

<i>Finding Number</i>	2009-007
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Noncompliance Citation

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

The Village Sewer Fund had negative fund balances of \$71,602 and \$53,260 as of December 31, 2009 and 2008, and no monies had been deposited in its Sewer Sinking Fund as required. This is indicative that sewer system rates were insufficient to meet the operation and maintenance of the sewer utility. This could result in sanctions being imposed on the Village by OPWC.

We recommend management routinely monitor for proper compliance with debt covenants.

The utility operations and utility debt obligations were transferred to the Henry County Water and Sewer District in 2010.

<i>Finding Number</i>	2009-008
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Noncompliance Citation

7 CFR 1780.47(f)(2)(ii) requires annual management reports shall be submitted to the United States Department of Agriculture (USDA) processing office prior to the beginning of each fiscal year. Financial information may be reported on Form RD 442-2 which includes Schedule 1, "Statement of Budget, Income and Equity: and Schedule 2, "Projected Cash Flow" or information in similar format.

The Village did not prepare and submit Form RD 442-2 (the Form) for 2009 or 2008 for their 1996 sanitary sewer loan. This could result in sanctions being imposed on the Village by USDA.

We recommend management routinely monitor for proper compliance with debt compliance.

The utility operations and utility debt obligations were transferred to the Henry County Water and Sewer District in 2010.

<i>Finding Number</i>	2009-009
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Noncompliance Citation

Village of McClure, First Mortgage System Revenue Bond states the Village will fix and revise such rates and charges for the services and facilities of its waterworks system and collect and account for income and revenues therefrom sufficient to promptly pay all expenses incident to the operation of the system, a Sinking Fund for payment of principal and interest on the bonds, and to provide for depreciation and for the payment of taxes or assessments on revenues thereof.

The Village Water fund had negative fund balances of \$46,966 and \$41,842 as of December 31, 2009 and 2008, and no monies had been deposited in a Waterworks Sinking Fund as required. This is indicative that water sewer rates were insufficient to meet the operation and maintenance of the water utility. This could result in sanctions being imposed on the Village by the Bond Issuer.

We recommend management routinely monitor for proper compliance with debt covenants.

The utility operations and utility debt obligations were transferred to the Henry County Water and Sewer District in 2010.

<i>Finding Number</i>	2009-010
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Noncompliance Citation

Ohio Public Works Commission (OPWC) Loan Agreement, Article 2.2(b), states the Village shall furnish to the Ohio Public Works Commission annual reports of the operations and income of the Utility together with an annual report of the account and operations of the Utility.

The Village has not sent any of the required reports to the Ohio Public Works Commission for the water and sewer loans. This could result in sanctions being imposed on the Village by OPWC.

We recommend the Village contact the Ohio Public Works Commission to obtain the necessary reporting forms and file the required data with the Ohio Public Works Commission.

<i>Finding Number</i>	2009-011
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Noncompliance Citation

Ohio Revised Code § 5705.39 states total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the budget commission, or in case of appeal, by the board of tax appeals. For purposes of this section of the Ohio Revised Code, estimated revenue is commonly referred to as “estimated resources” because it includes unencumbered fund balances.

Ohio Revised Code § 5705.36 states on or about the first day of each fiscal year, the fiscal officer of each subdivision and other taxing unit shall certify to the county auditor the total amount from all sources available for expenditures from each fund set up in the tax budget, and such certified amount shall include any unencumbered balances existing at the end of the preceding year.

Ohio Revised Code § 5705.36(A)(2) states upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater or less than the amount included in an official certificate, the fiscal officer may certify the amount of the deficiency or excess to the commission, and if the commission determines that the fiscal officer’s certification is reasonable, the commission shall certify an amended official certificate reflecting the deficiency or excess.

The Village did not obtain a certificate of estimated resources in either 2009 or 2008. Therefore, approved appropriations exceeded available resources in all eleven funds in each respective year. Appropriations exceeded total estimated resources by \$306,793 at December 31, 2009 and \$330,543 at December 31, 2008.

Failure to monitor budgetary variances may have contributed to deficit spending and negative fund balances.

The Village should obtain a certificate of estimated resources each year. The Clerk-Treasurer should be posting budgeted figures from the approved appropriations and estimated certificates and regularly monitoring appropriations to the total available resources for expenditure from each fund and submit the necessary modifications to Council for approval. In addition, the Clerk-Treasurer should make sure the original and/or amended certificate(s) of estimated resources has been obtained from the County Auditor for annual appropriations and all subsequent modifications for each year.

<i>Finding Number</i>	2009-012
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Noncompliance Citation and Material Weakness

Ohio Revised Code § 5705.40 states that any appropriation ordinance or measure may be amended or supplemented as long as such amendment or supplement complies with all provisions of law governing the taxing authority in making an original appropriation.

The legally adopted appropriations were different than the posted appropriations in the following funds selected for testing:

	Approved Appropriations	Posted Appropriations	Difference
For the year ended December 31, 2009:			
General Fund	\$131,480	\$218,989	\$87,509
Permissive Motor Vehicle License Tax Fund	9,000	28,620	19,260
Sewer Fund	124,284	163,750	39,466
For the year ended December 31, 2008:			
General Fund	\$181,084	\$244,570	\$63,486
Street Construction, Maintenance, and Repair Fund	22,700	65,925	43,225
Water Fund	204,284	216,284	12,000

The budgetary disclosures have been adjusted to reflect appropriations approved by Council.

We recommend the Clerk-Treasurer only post appropriation measures which have been formally adopted by Council in the minutes of the Village's record of proceedings and certified by the County Auditor. We also recommend the Village develop procedures to ensure proper posting to the accounting system and financial statements. Additionally, should the Village need to amend or supplement its original appropriation measure, it should review the applicable Revised Code section and work with its legal counsel to ensure compliance with all appropriate law.

<i>Finding Number</i>	2009-013
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Noncompliance Citation

Ohio Revised Code § 5705.41(B) states no subdivision or taxing unit shall make any expenditure of money unless it has been lawfully appropriated.

The Village's expenditures exceeded appropriations at year end in the following funds selected for testing:

	Appropriation Authority	Budgetary Expenditures	Difference
For the year ended December 31, 2009:			
General Fund	\$133,479	\$182,631	\$(49,152)
Permissive Motor Vehicle License Tax Fund	9,000	17,104	(8,104)
Sewer Fund	124,734	146,682	(21,948)

	Appropriation Authority	Budgetary Expenditures	Difference
For the year ended December 31, 2008:			
General Fund	\$183,083	\$214,439	\$(31,356)
Street, Construction, Maintenance, and Repair Fund	22,887	60,281	(37,394)
Water Fund	204,901	207,735	(2,834)

Allowing expenditures to exceed appropriations could result in deficit spending.

The Village's management officials should regularly monitor budgets to make sure there are sufficient appropriations to fund anticipated expenditures.

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

<i>Finding Number</i>	2009-014
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Noncompliance Citation

Village of McClure, Sanitary Sewer System Mortgage Revenue Bonds Ordinance No. 539, Section 9(i) states prior to the beginning of each fiscal year the Village will prepare an annual budget of said system for the ensuing fiscal year itemized on the basis of monthly requirements. A copy of such budget shall be mailed without request to the United States of America.

There was no evidence the Village filed an annual budget with the United States government.

We recommend the Village contact the United States government and file the necessary budget documentation.

<i>Finding Number</i>	2009-015
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Noncompliance Citation

Ohio Administrative Code § 117-2-02(B) requires the management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. The accounting system should assure the following five assertions are achieved for all transaction types and account balances applicable to the local public office's operations, considering the basis of accounting applicable to it:

1. Existence/occurrence: That recorded assets (and liabilities, if generally accepted accounting principles apply) exist as of fiscal year end, recorded transactions have occurred and are not fictitious.
2. Completeness: That all account balances and transactions which should be included in the financial records are included.
3. Rights and obligations: That recorded assets are rights of the public office and recorded liabilities (if generally accepted accounting principles apply), are obligations of the public office at the fiscal year end.
4. Valuation/allocation: That generally accepted accounting measurement and recognition principles are properly selected and applied. This includes accounting measurement and recognition principles prescribed by the auditor of state for public offices which are not required to follow generally accepted accounting principles.

Presentation and disclosure: That financial statement elements are properly classified and described and appropriate disclosures are made as required by generally accepted accounting principles, or as

5. prescribed by the auditor of state for entities which do not follow generally accepted accounting principles.

Twenty-six payments were identified in which there was no supporting documentation, such as an invoice or receipt, available to substantiate the validity of disbursements made. Also, testing identified three instances in which payment was made only from a statement without the original invoice or bill being submitted as supporting documentation.

These weaknesses significantly increase the risk improper or illegal expenditures could be made and not detected by management and has resulted in several findings for recovery included in this report.

We recommend the Clerk-Treasurer obtain and retain original invoices for each disbursement transaction for expenditures of goods and services. The invoices should be attached to copies of checks issued and purchase orders. Council should further adopt procedures to require original supporting documentation, such as invoices or receipts, be provided to them before approving payment on any expenditure.

<i>Finding Number</i>	2009-016
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Noncompliance Citation

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

The Village has a Water Deposit Fund for water deposits collected from its customers. This fund had a balance of \$18,344 at December 31, 2009, with no activity occurring during the audit period. There is no documentation that substantiates how much (if any) of this balance is due to be credited to the customers’ accounts. Much (if not all) of these monies may be due the customer accounts per the Village ordinance.

We recommend the Village follow the Ordinance, review customer accounts to find those qualifying as timely, and credit the timely accounts their \$100. We also recommend the Village review its Water Deposit Fund on the UAN system for prior years. It appears receipts posted to the fund indicate the customers’ names. This should provide the information necessary to produce a listing of customer accounts included in the \$18,344 Water Deposit Fund Balance. This listing should be retained and kept current by updating periodically.

<i>Finding Number</i>	2009-017
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Noncompliance Citation

Village Tax Code Ordinance 564, as amended by Ordinance 03-12 § #5(A) states each taxpayer, whether a tax be due, shall make and file a return on or before April 30 of each year (amended to April 15 for years 2004 on).

Furthermore, **Village Tax Code Ordinance 564 § #3(A)(2)** states the Village will impose a tax on all salaries, wages, commissions and other compensation earned during the effective period of the ordinance by nonresidents for work done or services performed or rendered in this municipality.

Thirty-seven percent of the individuals and businesses selected for testing did not file a tax return and were not considered non-filers. This included five Village employees who did not file a tax return for work performed in the Village.

We recommend the Clerk-Treasurer review the amended Tax Ordinance and follow procedures listed for obtaining tax returns from non-filers. We also recommend the Village require all non-residents to pay taxes on wages earned in the Village.

<i>Finding Number</i>	2009-018
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Material Weakness

Income Tax

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

- Procedures have not been established to help ensure the completeness of tax filings.
- Tax records do not provide aging reports.
- The tax accounting system is not reconciled to collections and refunds recorded in the General Fund.
- Individual tax payer files are not maintained
- Not all income tax transactions were recorded to the applicable individual income tax records.
- Only the Clerk-Treasurer has access to income tax records and the Villages financial records.

This resulted in the inability to determine the completeness of deposits of income tax revenues in 2009 and 2008. Income tax revenues represented 49 percent of the total revenue of the General Fund in 2009 and 48 percent of the total revenue of General Fund in 2008. We recommend the Village Council establish by resolution the following procedures:

- Billing records should be compared to current listings of tax filers to determine all necessary individuals are filing tax returns.
- Aging reports should be run monthly and at year-end and reviewed by Council.
- At a minimum the income tax records should be reconciled to the receipt ledger at year end.
- A filing system should be implemented so income tax records for individual tax payers can be easily found and the absence of a tax return will be easier to determine.
- All tax returns should indicate the date it was posted so it can be traced to the income tax reports.
- Council should be reviewing all income tax records for accuracy and proper reporting.

<i>Finding Number</i>	2009-019
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Material Weakness

Bank Reconciliations

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

- The Uniform Accounting Network (UAN) Investment Account balances were not properly recorded into the UAN system.
- The monthly reconciliations had unexplained variances during 2009 and 2008 which ranged from \$333 to \$22,458. These unexplained variances were a result of not all receipts being posted into the UAN system and other clerical errors by the Clerk-Treasurer. Manual receipts were issued for monies received and were later posted to the UAN receipt ledger. Our testing found instances of receipts being double booked in the UAN system.

- Voided checks were cashed and the Clerk-Treasurer used direct memo entries to record these transactions.

Failure to correctly reconcile Village books, keep accurate records, and re-performance of reconciliations by oversight bodies may have resulted in the bank balance being greater than the book balance by \$1,908 at December 31, 2009. The financial statements and Village's accounting system have been adjustment to reflect the errors. In order to help ensure the accuracy of bank reconciliations we recommend:

- Investment ledger balances at the end of each month should be reconciled to the bank statement as part of the regular reconciliation process.
- All variances should be investigated, explained, and corrected during the reconciliation process. If variances cannot be identified the Clerk-Treasurer should seek outside assistance in order to reconcile the books.
- Manual receipt reference numbers be included on the applicable UAN issued receipts.
- The Clerk-Treasurer accounts for all voided checks and not void checks which have been cashed.

<i>Finding Number</i>	2009-020
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Material Weakness

Utility Revenues

The following weaknesses and errors were noted in testing utilities:

The Clerk-Treasurer is responsible for processing utility bills, receiving payments, depositing utility receipts and entering transactions into the utility system.

- Utility cash collections are made at the local bank, by mail sent to the Village post office address and at the Clerk-Treasurer's home. Cash assets are not secured in a lockbox or safe at the Village office or the Clerk-Treasurer's home.
- Village Council is not reviewing billing, payment, delinquency journals and consumption reports on a consistent basis.
- The utility billing system subsidiary ledger is not online with the Village's UAN receipts ledger and reconciliations between the ledgers are not completed.
- Several days of utility receipts are batched together and credited to the accounts on the same day.
- A utility payment register was not always found for each day's collections, and subsequently the days' collections was not always posted to the UAN receipt ledger and the deposit made by the next business day. Individual deposits did not always agree to the daily utility payment posting register, and to the individual UAN receipt. For instance, in 2009, payment registers were not always evident for utility collections for most of the daily collections during the months of February, May, and June 2009. The Clerk-Treasurer was not able to go back into the utility billing system and regenerate payment registers for these months. Therefore, we were not able to verify the completeness of utility revenues posted to either the subsidiary utility billing system or the Village's UAN accounting system.
- Utility batches are posted to manual duplicate receipts and are deposited together as one receipt. The individual daily utility batches are posted to the UAN receipt ledger.
- Customers maintain large unpaid account balances and the Village has not taken any action on these delinquent accounts.
- The Village Utility Ordinance is not specific on how late charges are to be calculated.

This resulted in the inability to determine the completeness of deposits of utility revenues in 2009 and 2008. The charges for services revenue represent 97 percent of the total revenue of the Enterprise

Fund in 2009 and 98 percent of the total revenue of the Enterprise Fund in 2008. We recommend Village Council improve monitoring of the utility revenue cycle. This would include periodic review of billing, payment, delinquency, and consumption activity reports for accuracy and completeness. Periodically, Council should determine whether supporting documents, such as meter books, can be agreed to summary reports. Management should also follow up on delinquent account balances and take steps to seek collection on them.

In 2010, the Village discontinued utility operations and transferred the utility system and all the utility activity to the Henry County Water and Sewer District.

<i>Finding Number</i>	2009-021
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Material Weakness

Monitoring Village Financial Activity

The small size of the Village’s staff does not allow for an adequate segregation of duties; the Clerk-Treasurer must perform all accounting functions. It is therefore important Village Council (or other committee) monitor financial activity closely. The following deficiencies were noted during the audit:

- The only indication noted of any reviews or approvals by Village Council or the finance committee was the monthly summary of the total paid to each vendor, which is signed by the Village Council.
- There were a total of 19 audit adjustments made during the period 2009 and 2008. This includes:
 - In 2008, advances were made and returned between and within the General Fund (\$36,000), Street Construction, Maintenance, and Repair Fund (\$46,230), Capital Projects Fund (\$42,750), and Water Fund (\$86,000) without Council approval.
 - In 2008 and 2009, debt payments of \$29,712 and \$28,000, respectively were posted to the capital outlay line item in error.
 - In 2008 and 2009, court fines of \$8,840 and \$3,132, respectively, in the General Fund were misposted as miscellaneous revenue when they should have been posted to fines, fees, and permits.
 - In 2008, motor vehicle license tax of \$6,002 was misposted to the Permissive Motor Vehicle License Tax Fund when \$5,552 and \$450, respectively, should have been posted to the Street Construction, Maintenance, and Repair Fund and the Highway Fund.

Audit adjustments were posted to the financial statements, for these errors and the Village’s accounting records were updated where applicable. Audit adjustments were also made for other errors ranging from \$1,443 to \$1,908.

Village Council was not provided accurate information in order to make informed decisions. To help ensure the financial position of the funds presented to Village Council are complete and accurate we recommend:

- A financial reports packet should be provided to the Council and Finance Committee. The following reports should be included in the packet: monthly cash journal, monthly cash summary report by fund, monthly expenditure journal, monthly fund journal (which shows debit/expenditure and credit/revenue entries and checking and investment balances), monthly investment journal and monthly revenue journal and listing of vouchers, monthly budget to actual statements, and bank reconciliations. These reports should be reviewed and a copy of the reports retained with the Finance Committee with signatures on the report packet indicating a review was completed.

The Clerk-Treasurer post all transactions in accordance with the guidance established by the Ohio

- Village Officers' Handbook issued by the Auditor of State. Further, Council should adopt procedures where it (or other committees) reviews the financial statements for accuracy.

Officials' Response:

We did not receive a response from Officials to the findings reported above.

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Finding for Recovery for \$400 for purchase of gift cards by the Police Chief	Yes	
2007-002	Finding for Recovery for unsupported expenditures by the Police Chief	Yes	
2007-003	Ohio Administrative Code 117-2-02(B) for Clerk-Treasurer falsifying transactions and unsupported expenditures	No	Repeated as Finding 2009-015 in this report.
2007-004	Village Ordinance 539 and 253 for not establishing a sinking fund for water and sewer	No	Repeated as Finding 2009-006 in this report.
2007-005	Village Ordinance 539 for not obtaining a fidelity bond with the USDA named as co-obligee.	Yes	
2007-006	Village Ordinance 539 for not increasing sewer rates sufficient to cover deficit balance.	No	Repeated as Finding 2009-007 in this report.
2007-007	Village's Water Revenue Bond for not increasing water rates sufficient to cover deficit balance.	No	Repeated as Finding 2009-009 in this report.
2007-008	7 CFR 1780.47(f)(ii) for not submitting an annual report to the USDA	No	Repeated as Finding 2009-008 in this report.
2007-009	Ohio Public Works loan agreement, Article 2.2(b) for not submitting financial reports to the Ohio Public Works Commission	No	Repeated as Finding 2009-010 in this report.
2007-010	ORC 5705.10 for incorrectly posting revenues and for negative fund balances.	No	Repeated as Finding 2009-005 in this report.

**VILLAGE OF MCCLURE
HENRY COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-011	Village Ordinance 925.02(f) for not crediting the water deposit back to customer's accounts after 12 months of timely payments.	No	Repeated as Finding 2009-016 in this report.
2007-012	Village resolution 437 for not establishing an Income Tax fund and not properly allocating income tax revenue.	Yes	
2007-013	ORC 5705.41(D)(1) for not properly certifying expenditures	Yes	
2007-014	ORC 5705.39 for appropriations in excess of estimated revenue	No	Repeated as Finding 2009-011 in this report.
2007-015	ORC 5705.41(B) for expenditures in excess of appropriations	No	Repeated as Finding 2009-013 in this report.
2007-016	Recommended monitoring of financial statements	No	Repeated as Finding 2009-021 in this report.
2007-017	Recommended that bank accounts be reconciled monthly and be reviewed by Council.	No	Repeated as Finding 2009-019 in this report.
2007-018	Recommendation that procedures be implemented to improve controls over utility collections	No	Repeated as Finding 2009-020 in this report.
2007-019	Recommendation that procedures be implemented to improve controls over income tax revenues.	No	Repeated as Finding 2009-018 in this report.

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Mary Taylor, CPA
Auditor of State

VILLAGE OF MCCLURE

HENRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 4, 2011**