



**VILLAGE OF MCCLURE
HENRY COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007



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 16, 2008

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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, 2007 and 2006. 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. 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.

We were unable to obtain sufficient evidential matter to support completeness of the income tax revenues reported in the General Fund. These revenues represent 46 percent of the total revenue of the General Fund in 2007 and 53 percent of the total revenue of General Fund in 2006.

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.

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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, 2007 and 2006, 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, 2007 and 2006, or its changes in financial position or cash flows, of its proprietary funds 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, 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, 2007 and 2006, 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 December 16, 2008, 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

December 16, 2008

**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, 2007**

	<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	\$29,524	\$5,497		\$35,021
Municipal Income Tax	75,468			75,468
Intergovernmental	36,223	33,518		69,741
Charges for Services	1,718			1,718
Fines, Licenses and Permits	16,415			16,415
Earnings on Investments	1,151			1,151
Miscellaneous	1,988			1,988
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	162,487	39,015		201,502
	<hr/>	<hr/>	<hr/>	<hr/>
Cash Disbursements:				
Current:				
Security of Persons and Property	113,147			113,147
Leisure Time Activities	1,840			1,840
Transportation		78,970		78,970
General Government	87,540			87,540
Debt Service:				
Redemption of Principal	2,943			2,943
Interest and Fiscal Charges	1,752	1,355		3,107
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	207,222	80,325		287,547
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements Over Cash Receipts	(44,735)	(41,310)		(86,045)
	<hr/>	<hr/>	<hr/>	<hr/>
Other Financing Receipts / (Disbursements):				
Transfers-In		1,711	\$685	2,396
Transfers-Out	(2,396)			(2,396)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	(2,396)	1,711	685	
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(47,131)	(39,599)	685	(86,045)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	52,515	89,884	48,700	191,099
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Fund Cash Balances, December 31	\$5,384	\$50,285	\$49,385	\$105,054
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Reserve for Encumbrances, December 31	\$2,000	\$187		\$2,187
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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, 2007**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$288,858
Fines, Licenses and Permits	6,639
Total Operating Cash Receipts	295,497
Operating Cash Disbursements:	
Personal Services	75,690
Employee Fringe Benefits	28,441
Contractual Services	36,811
Supplies and Materials	63,326
Total Operating Cash Disbursements	204,268
Operating Income	91,229
Non-Operating Cash Disbursements:	
Capital Outlay	153
Redemption of Principal	40,900
Interest and Other Fiscal Charges	75,332
Total Non-Operating Cash Disbursements	116,385
Excess of Cash Disbursements Over Cash Receipts	(25,156)
Fund Cash Balances, January 1	114,704
Fund Cash Balances, December 31	\$89,548
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, 2006**

	<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	\$25,853	\$5,680		\$31,533
Municipal Income Tax	81,604			81,604
Intergovernmental	38,447	35,486		73,933
Charges for Services	626			626
Fines, Licenses and Permits	4,583			4,583
Earnings on Investments	1,469			1,469
Miscellaneous	1,639			1,639
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	154,221	41,166		195,387
	<hr/>	<hr/>	<hr/>	<hr/>
Cash Disbursements:				
Current:				
Security of Persons and Property	27,269			27,269
Leisure Time Activities	1,437			1,437
Transportation		86,382		86,382
General Government	135,049			135,049
Debt Service:				
Redemption of Principal	868			868
Interest and Fiscal Charges	570	530		1,100
Capital Outlay	109,865			109,865
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	275,058	86,912		361,970
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Total Cash Disbursements over Cash Receipts	(120,837)	(45,746)		(166,583)
	<hr/>	<hr/>	<hr/>	<hr/>
Other Financing Receipts / (Disbursements):				
Proceeds from Sale of Public Debt:				
Loan Debt Proceeds	116,248			116,248
Transfers-In		19,517	\$7,806	27,323
Transfers-Out	(27,323)			(27,323)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	88,925	19,517	7,806	116,248
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(31,912)	(26,229)	7,806	(50,335)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	84,427	116,113	40,894	241,434
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Fund Cash Balances, December 31	\$52,515	\$89,884	\$48,700	\$191,099
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Reserve for Encumbrances, December 31	\$5,791	\$1,628		\$7,419
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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, 2006**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$317,215
Fines, Licenses and Permits	8,784
Total Operating Cash Receipts	325,999
Operating Cash Disbursements:	
Personal Services	75,450
Employee Fringe Benefits	28,629
Contractual Services	30,188
Supplies and Materials	65,038
Total Operating Cash Disbursements	199,305
Operating Income	126,694
Non-Operating Cash Disbursements:	
Capital Outlay	
Redemption of Principal	32,800
Interest and Other Fiscal Charges	81,962
Other Non-Operating Cash Disbursements	
Total Non-Operating Cash Disbursements	114,762
Excess of Cash Receipts Over Cash Disbursements	11,932
Fund Cash Balances, January 1	102,772
Fund Cash Balances, December 31	\$114,704
Reserve for Encumbrances, December 31	\$3,327

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, 2007 AND 2006**

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. Cash 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:

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 MCCLURE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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 Project 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 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 each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function 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, 2007 AND 2006
(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 budgetary presentations for material items that should have been encumbered.

A summary of 2007 and 2006 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:

	<u>2007</u>	<u>2006</u>
Demand deposits	\$166,473	\$279,005
Certificates of deposit	28,129	26,798
Total deposits	<u>\$194,602</u>	<u>\$305,803</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, 2007 AND 2006
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$125,367	\$162,487	\$37,120
Special Revenue	51,305	40,726	(10,579)
Capital Projects	7,000	685	(6,315)
Enterprise	326,001	295,497	(30,504)
Total	\$509,673	\$499,395	(\$10,278)

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$137,320	\$211,618	(\$74,298)
Special Revenue	22,700	80,512	(57,812)
Enterprise	314,357	321,720	(7,363)
Total	\$474,377	\$613,850	(\$139,473)

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General		\$270,469	\$270,469
Special Revenue		60,683	60,683
Capital Projects		7,806	7,806
Enterprise		325,999	325,999
Total		\$664,957	\$664,957

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$151,720	\$308,172	(\$156,452)
Special Revenue	161,500	88,540	72,960
Enterprise	520,720	317,394	203,326
Total	\$833,940	\$714,106	\$119,834

**VILLAGE OF MCCLURE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

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.

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, 2007, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sanitary Sewer Mortgage Revenue Bonds	\$1,115,100	5.125%
First Mortgage Waterworks Revenue Bonds	179,000	5%
Ohio Public Works Commission Loan	77,707	4%
Ohio Public Works Commission Loan	14,094	0%
General Obligation Loan	<u>110,389</u>	5.5%
Total	<u><u>\$1,496,290</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.

**VILLAGE OF MCCLURE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

6. DEBT – (CONTINUED)

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.

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
2008	\$74,649	\$27,950	\$9,505	\$1,762	\$9,445
2009	74,652	28,000	9,504	1,762	9,445
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 – 2017	373,327	81,550	47,521	5,284	47,226
2018 – 2022	373,444				47,226
2023 – 2027	373,395				37,485
2028 – 2032	373,367				
2033 – 2036	298,669				
Total	<u>\$2,165,596</u>	<u>\$221,300</u>	<u>\$95,044</u>	<u>\$14,094</u>	<u>\$179,162</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 2007 and 2006, OPERS members contributed 9.5% and 9%, respectively, of their gross salaries and the Village contributed an amount equaling 13.85% and 13.7%, respectively, of participants' gross salaries. The Village has not paid all contributions required through December 31, 2007

**VILLAGE OF MCCLURE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

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. 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. 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 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006) as noted above.

Property Coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, 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 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will then reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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.

**VILLAGE OF MCCLURE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

8. RISK MANAGEMENT – (CONTINUED)

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

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, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Assets	\$37,560,071	\$36,123,194
Liabilities	<u>(17,340,825)</u>	<u>(16,738,904)</u>
Net Assets	<u>\$20,219,246</u>	<u>\$19,384,290</u>

At December 31, 2007 and 2006, respectively, the liabilities above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$18,000. This payable includes the subsequent year's contribution due if the Village 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.

<u>Contributions to PEP</u>	
2005	\$12,166
2006	13,501
2007	15,834

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they provide 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.

**VILLAGE OF MCCLURE
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

9. NONCOMPLIANCE

The Village has not established the water sinking fund or obtained adequate bond coverage 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 information to the Ohio Public Works Commission and the Rural Development of the U.S. Department of Agriculture was not performed contrary to the loan agreements.

The Village has a Water Deposit Fund balance at \$18,344 at December 31, 2007 and 2006. These monies are due the customer accounts per Villages Codified Ordinance, Chapter 925.02(f).

At December 31, 2007, the Water Operating and Sewer Operating Funds had negative fund balances of \$16,393 and \$28,341, respectively. At December 31, 2006, the Water Operating and Sewer Operating Funds had a negative fund balance of \$6,268 and \$13,310, respectively. Management does not currently have a plan in place to address these negative fund balances.

The Village did not establish an income tax fund and did not allocate the proper income tax revenue to applicable funds in 2007 and 2006 per Village Resolution 437.

Twenty-eight percent of the expenditures tested were not certified as required.

At December 31, 2007, appropriations exceeded estimated resources in the State Highway Fund and Water Operating Funds by \$1,999, and \$8,502, respectively. At December 31, 2006, appropriations exceeded estimated resources in all funds by total amount of \$833,940.

At December 31, 2007, expenditures exceeded appropriations in the General, Street Construction Maintenance and Repair, and Sewer Operating Funds by \$74,298, \$57,812 and \$91,771, respectively. At December 31, 2006, expenditures exceeded appropriations in the General, Motor Vehicle License Tax and Sewer Operating Funds by \$156,452, \$39,209, and \$5,250, respectively.

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Mary Taylor, CPA

Auditor of State

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

Village of 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, 2007 and 2006, and have issued our report thereon dated December 16, 2008, 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. 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 qualified our report on the income tax revenue in the General Fund in 2007 and 2006 because we were unable to obtain sufficient evidential matter to support completeness of income tax revenues reported in the General Fund. 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 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.

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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: 2007-010, 2007-016, 2007-017, 2007-018, and 2007-019.

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, we believe the significant deficiencies described above are also material weaknesses.

We also noted certain internal control matters we reported to the Village's management in a separate letter dated December 16, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standard* which are described in the accompanying schedule of findings as items 2007-001 through 2007-015.

We also noted certain noncompliance not requiring inclusion in this report we reported to the Village's management in a separate letter dated December 16, 2008.

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



Mary Taylor, CPA
Auditor of State

December 16, 2008

**VILLAGE OF MCCLURE
HENRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Finding for Recovery Repaid Under Audit

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

During the period of January 1, 2006 to December 31, 2007 Miguel Trevino, Police Chief purchased four shopping cards at Walmart valued at \$400.00 using the Village's credit card. There is no indication that these expenditures were approved ahead of time. Additionally, Chief Trevino was not able to provide documentation to show what these shopping cards were used for. Without appropriate documentation it is not possible to determine if the expenditures included items that 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 that are not for a proper public purpose.

Connie Ehlers, Clerk-Treasurer and Richard Vargo, Council President signed the warrants which paid the credit card balances that included the purchase of the gift cards.

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, Police Chief; Connie Ehlers, Clerk-Treasurer, Richard Vargo, Council member, and Auto-Owners (Mutual) Insurance Company, Ms. Ehler's and Mr. Vargo's surety company, jointly and severally, in favor of the General Fund of the Village of McClure in the total amount of \$400.00.

On December 22, 2008, Mr. Trevino reimbursed the Village's General Fund \$400.00 on Receipt Number 554396.

FINDING NUMBER 2007-002

Finding for Recovery Repaid Under Audit

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

**FINDING NUMBER 2007-002
(Continued)**

During the period of January 1, 2006, to December 31, 2007, Miguel Trevino, Police Chief received four checks totaling \$2,380 for three airline trips and expenses. Of this amount, Chief Trevino had documentation that supported a payment of \$1,812.77. This left undocumented expenses in the amount of \$567.23. Without appropriate documentation it is not possible to determine if the expenditures included items that 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 that are not for a proper public purpose.

Connie Ehlers, Clerk-Treasurer and Richard Vargo, Council President signed each of the four warrants which were paid to Mr. Trevino.

Based upon 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, Police Chief; Connie Ehlers, Clerk-Treasurer Richard Vargo, Council member; and Auto-Owners (Mutual) Insurance Company, Ms. Ehler's and Mr. Vargo's, surety company jointly and severally for \$567.23 in favor of the General Fund of the Village of McClure.

On December 22, 2008, Mr. Trevino reimbursed the Village's General Fund \$567.23 on Receipt Number 554396.

FINDING NUMBER 2007-003

Noncompliance Citation

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

- (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 that 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 that are not required to follow generally accepted accounting principles.
- (5) 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 prescribed by the auditor of state for entities that do not follow generally accepted accounting principles.

**FINDING NUMBER 2007-003
(Continued)**

There were 78 instances identified where there was no supporting documentation (such as an invoice) available to substantiate the validity of disbursements made. There were also 8 disbursements for postage where the Clerk-Treasurer admitted she falsified United States Post Office receipts for examination by the State Auditor's Office.

Although we were able to obtain sufficient evidential matter to substantiate these transactions were otherwise valid, such a weakness significantly increases the risk improper expenditures could be made and not detected by management

We recommend the Clerk-Treasurer obtain and retain original invoices for each disbursement transaction for expenditures of good and services. The invoices should be attached to copies of checks issued and purchase orders and requisitions in no case should the Clerk-Treasurer ever falsify documentation. Council should further adopt procedures to require original supporting documentation (such as invoices) be provided to them before approving payment on any expenditure.

FINDING NUMBER 2007-004

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 monthly the amount to be used toward the semiannual debt (principal and interest) payments.

The Village has not established a Water Sinking Fund as required by the Ordinance, which is contrary to the debt covenant. There was no activity in the Sewer Sinking Fund during 2007 or 2006 even though there was sewer system debt retired each year.

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 the Village Council and Board of Public Affairs (BPA) establish the required fund and post the required amounts of money into the funds towards the payment of the semiannual debt requirements.

FINDING NUMBER 2007-005

Noncompliance Citation

Village of McClure, Sanitary Sewer System Mortgage Revenue Bonds Ordinance No. 539, Section 6 states the Village shall execute and keep in force a fidelity bond in an amount approved by the appropriate official of the United States of America, and the United States of America and the Village shall be named as co-obligee in such bond. The amount shall not be reduced without the prior written consent of the appropriate official of the United States of America. The United States Department of Agricultural Rural Development (USDA) office has set the bond at an amount equal to the yearly debt payment due

**FINDING NUMBER 2007-005
(Continued)**

The Village currently has public official and surety bonds that total \$50,000. The Village is only named on said bonds. This could result in sanctions being imposed on the Village by USDA.

The Village Council should review this requirement and obtain the necessary amounts to be bonded and to name the United States of America as a co-obligee.

FINDING NUMBER 2007-006

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 Sanitary Sewer Fund has a negative fund balance of \$28,341 as of December 31, 2007, and no monies have been deposited in its Sewer Sinking Fund as required. This could result in sanctions being imposed on the Village by OPWC.

The Village Council and BPA should consider the accumulated December 31, 2007, deficit balance and the various requirements to meet future operating, maintenance and debt service requirements to ensure the present rate structure is at an appropriate level to meet future spending.

FINDING NUMBER 2007-007

Noncompliance Citation

Village of McClure, First Mortgage System Revenue Bond states the Village will fix rates and charges in an amount sufficient to promptly pay all expenses incident to the operation of the system, and for payment of principal and interest on the bonds.

The Village Water fund has a negative fund balance of \$16,393 as of December 31, 2007, and no monies have been deposited in a Waterworks Sinking Fund as required. This could result in sanctions being imposed on the Village by the Bond Issuer.

The Village Council and BPA should consider the accumulated December 31, 2007, deficit balance and the various requirements to meet future operating, maintenance and debt service requirements to ensure the present rate structure is at an appropriate level to meet future spending.

FINDING NUMBER 2007-008

Noncompliance Citation

The Village obtained a sanitary sewer loan from the United States Department of Agriculture (USDA) in 1996. 7 CFR 1780.47(f)(2)(ii) requires that annual management reports shall be submitted to the 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 management report requirement is in relation to the Sanitary Sewer loan was obtained from the USDA in 1996.

The Village did not prepare and submit Form RD 442-2 (the Form) for fiscal year 2007 or 2006. This could result in sanctions being imposed on the Village by USDA.

We recommend management of the Village request training or assistance from the Rural Development Office in the completion of this Form.

FINDING NUMBER 2007-009

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. 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.

FINDING NUMBER 2007-010

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 the purpose for which the levy was made. Furthermore, this code section requires all revenue derived from a source other than general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose. Additionally, subsection (H) of this section also requires that monies paid into any fund shall only be used for the purposes for which the fund was established.

In fiscal year 2007 \$1,074 in October tangible tax settlement revenue and \$1,661 in gasoline tax revenue were incorrectly posted to Motor Vehicle License Tax Fund, instead of the General Fund, Street Construction and Repair fund and State Highway Fund. \$1,574 in gasoline tax revenue was incorrectly posted to General Fund, instead of the Street Construction and Repair and Motor Vehicle License Tax Funds.

**FINDING NUMBER 2007-010
 (Continued)**

In fiscal year 2006 \$1,409 and \$114, respectively, in auto reg-perm tax and auto liquor permit fees were incorrectly recorded to Permissive License Tax Fund and State Highway fund, instead of the General Fund and Motor Vehicle License Tax Fund.

This resulted in a misstatement of financial activity in the respective funds. Improper reporting of revenue could cause management to draw inaccurate conclusions regarding its fiscal position. Management has included audit adjustments in the accompanying financial statements to correctly post these revenues 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, management should review its records to make sure all amounts are properly reflected in the appropriate funds.

Furthermore, as stated above, money paid into any fund shall be used only for the purposes for which the fund was established. The existence of a deficit balance in any fund indicates money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance. The following funds had negative fund balances at year end:

December 31, 2007	Variance
Water Operating Fund	\$ (16,393)
Sewer Operating Fund	(28,341)

December 31, 2006	Variance
Water Operating Fund	\$ (6,268)
Sewer Operating Fund	(13,310)

We recommend Council and the Board of Public Affairs monitor these funds closely throughout the year, restrict expenditures and/or pay for sewer utility improvements from the Utility Improvement Fund instead of the Sewer Operating Fund, amend the water deposit ordinance so monies in the Water Deposit Fund can be applied to delinquent balances, and pursue payment on delinquent accounts.

FINDING NUMBER 2007-011

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, 2007 and 2006, 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.

**FINDING NUMBER 2007-011
(Continued)**

We recommend the Village follow the Ordinance, review customer accounts to find those qualifying as timely, 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.

FINDING NUMBER 2007-012

Noncompliance Citation

Village of McClure Resolution 437 requires that income tax monies be dispersed as follows: 70% to the General Fund, 20% to the Street Fund and 10% to the Construction Fund. It also states that it is necessary to keep enough monies in the income tax fund so as to cover expenses budgeted for the Clerk's salary and benefits totals at \$5,500 per year.

The Clerk-Treasurer did not establish an Income Tax Fund. All income tax monies are deposited to and expensed from the General Fund. In addition, the Village did not transfer the required 20% and 10% to the Street Construction and Repair and Capital Project Funds in 2007. Instead 2.45% (or \$1,711) was transferred to the Street Construction and Repair Fund and 0.97% (or \$685) was transferred to the Capital Project Fund in 2007.

The Clerk-Treasurer did not transfer the required 20% and 10% to the Street Construction and Repair and Capital Project Funds in 2006. Instead 25.65% (or \$19,517) was transferred to the Street Construction and Repair Fund and 10.26% (or \$7,806) was transferred to the Capital Project Fund in 2006.

We recommend the Village follow their resolution on the disbursement of income tax revenues and transfer the correct amounts annually or modify the resolution so it properly matches Council's intentions.

FINDING NUMBER 2007-013

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) states no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

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

**FINDING NUMBER 2007-013
(Continued)**

1. **“Then and Now” certificate** – If the fiscal officer can certify both at the time the contract or order was made (“then”), and at the time the fiscal officer is completing the certification (“now”), 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 Board can authorize the drawing of a warrant for the payment of the amount due. The Village Council 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 the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village Council.

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 Council 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.

Twenty-eight percent of the transactions tested were not certified by the Clerk-Treasurer at the time the commitment was incurred, and there was no evidence the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Certification is not only required by Ohio law but is a key control in the disbursements process to help assure purchase commitments receive prior approval, and to help reduce the possibility of Village funds being over expended or exceeding budgetary spending limitations as set by the Village Council.

To improve controls over disbursements, we recommend all Village disbursements receive prior certification of the Clerk-Treasurer, and the Village Council members periodically review the expenditures made to ensure they are within the appropriations adopted by the Village Council members, certified by the Clerk-Treasurer, and recorded against appropriations.

FINDING NUMBER 2007-014

Noncompliance Citation

Ohio Revised Code § 5705.39 provides appropriations from each fund shall not exceed estimated revenue available for expenditure from that fund as certified by the budget commission in the certificate of estimated resources. No appropriation measure is to become effective until the county auditor files a certificate the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The Village appropriations exceeded estimated resources certified as available by the budget commission in the following funds at each respective year end:

December 31, 2007	Estimated Resources	Appropriations	Variance
Water Operating Fund	\$ 186,425	\$ 194,927	\$ (8,502)
State Highway Fund	1	2,000	(1,999)
<hr/>			
December 31, 2006			
General Fund		151,720	(151,720)
Street Construction Maintenance and Repair Fund		131,150	(131,150)
State Highway Fund		30,350	(30,350)
Water Operating Fund		317,436	(317,436)
Sewer Operating Fund		126,284	(126,284)
Enterprise Debt Service fund		75,000	(75,000)
Water Deposit Fund		2,000	(2,000)

Failure to monitor budgetary variances can result in deficit spending and negative fund balances. The Clerk-Treasurer should be posting budgeted figures from the approved appropriations and estimated certificates. This will give Council accurate budgetary information for monitoring. They can then modify appropriations and estimated resources as needed. We recommend Council monitor estimated resources and appropriations. We also recommend the Clerk-Treasurer request the county auditor provide the mentioned certification for any Council approved appropriations (original or amended).

FINDING NUMBER 2007-015

Noncompliance Citation

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

The following funds were found to have expenditures in excess of appropriations at year end:

December 31, 2007	Amount Appropriated	Amount Expended	Amount of Expenditures over Appropriations
General Fund	\$ 137,320	\$ 211,618	\$ (74,298)
Street Construction, Maintenance and Repair Fund	22,700	80,512	(57,812)
Sewer Operating Fund	42,430	134,201	(91,771)
<hr/>			
December 31, 2006			
General Fund	\$ 151,720	\$ 308,172	\$ (156,452)
Motor Vehicle License Tax Fund		39,209	(39,209)
Sewer Operating Fund	126,284	131,534	(5,250)

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.

FINDING NUMBER 2007-016

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 listing of vouchers which is signed by the Village Council.
- The Village funds have not been properly reconciled to bank account balances at any time during the audit period. There were amounts listed as unknown to reconcile the book balance to the bank balances. These differences ranged from \$3,977 to (\$20,111). There was no evidence Village Council or other committee reviewed any reconciliation.
- There were a total of 33 audit adjustments made during the period 2007 and 2006. This includes Income tax revenue of \$1,871 and local government highway funds of \$882 in 2007 and General loan proceeds of \$109,864 and tax settlement auditor and treasurer fees of \$1,207 in 2006 were not recorded to the accounting records by the Village

**FINDING NUMBER 2007-016
(Continued)**

Village Council is 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:

- The financial reports packet provided to the Council and Finance Committee 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 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.
- The bank reconciliations should be occasionally re-performed and reconciled to bank statements by Village Council or other committee. This re-performance would consist of verifying the accuracy of the adjustments to the bank balance (i.e. outstanding checks, deposits in transit) to the fund balances.
- 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.

FINDING NUMBER 2007-017

Material Weakness – Cash Reconciliation Process

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

- The UAN Investment Account balances were not updated and did not reconcile to the monthly bank statements for 2007 and 2006.
- The monthly reconciliations had unexplained variances which were posted as a unidentified other adjusting factors on the monthly reconciliations during 2007 and 2006. This method was used to balance the UAN system book balances to the bank. These unexplained variances were a result of not all receipts being posted into the UAN system and voided checks being cashed and clerical errors by the Clerk-Treasurer. The amounts listed as "unknown" in the reconciliations ranged from \$3,977 to (\$20,111) and occurred throughout the audit period
- Manual receipts are issued for monies received and posted to the UAN receipt ledger. The reconciliation process performed by the Clerk-Treasurer consisted of comparing the manual receipts issued to the bank deposits. Our testing found not all the manual receipts were posted into the UAN system.
- Voided checks were cashed and the Clerk-Treasurer would use direct memo entries to record these transactions.

**FINDING NUMBER 2007-017
(Continued)**

Failure to correctly reconcile Village books, keep accurate records and re-performance of reconciliations by oversight bodies can result in untimely detection of misappropriation of funds and results in inaccurate records can misinform decision makers as to the solvency of the Village. 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 reconciled during the reconciliation process. If variances cannot be identified the Clerk-Treasurer should seek outside assistance in order to reconcile the books.
- Manual duplicate receipt reference numbers be included on the applicable UAN issued receipt.
- Practice of using direct or memo entry for void checks that are cashed cease and all voided checks be accounted for.

FINDING NUMBER 2007-018

Material Weakness - Utility Account Processing Procedures

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.
- The Board of Public Affairs (BPA) is not reviewing billing, payment, delinquency journals and consumption reports on a consistent basis.
- The Utility subsidiary ledger is not online with the 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.
- 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.

**FINDING NUMBER 2007-018
(Continued)**

The lack of segregation of duties and weaknesses could result in irregularities not being detected in a timely manner, and loss of revenue or misposting of revenues to the Water and Sewer Operating funds. We recommend the following:

- The Village Council or BPA periodically review and initial Utility Payments Journal and compare receipts to deposits.
- Utility payment should not be accepted at the Clerk-Treasurer's home. Utility customers should be notified utility payments should be made to the bank. However, if payments are received through the mail then these collections should be posted to utility customer accounts on the day of collection. At the end of each day a utility payment register should be printed, the days' collections should be posted to the UAN receipt ledger and the deposit made by the next business day. Each individual deposit should agree to the daily utility payment posting register, and to the individual UAN receipt.
- The BPA review billing, payment, and delinquency journals and consumption and production reports on a monthly basis and those members sign off on each journal and report indicating review was completed. The BPA should follow up on any unusual variances noted during their review.
- The Utility subsidiary ledger should be reconciled monthly to the Receipts Ledger
- Payments made at the bank which are deposited to the Village's bank account at the end of the business day should be posted to the customer's account on the next business day. The utility payment register should be printed and the posting made to the UAN receipt ledger at the end of day. Each individual deposit should agree to the daily utility payment posting register, and to the individual UAN receipt.
- The Clerk-Treasurer should provide a list of delinquent accounts to the BPA and/or Village Council. The BPA/Council should authorize writing off the account or turn them over to the Village solicitor for collection. The BPA should review a computer-generated aging schedule at each of their meetings.
- The Council should review the Utility Ordinance and amend it so its intent is clear.

FINDING NUMBER 2007-019

Material Weakness - Village Income Tax Record Keeping Procedures

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

- Procedures have not been established to help ensure the completeness of tax filings.
- No indication is made to a tax filer when their recalculated tax return has errors and proper amounts after recalculations are not sought.
- No indication is made to a tax filer when support for the return is not adequate.
- 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.

**FINDING NUMBER 2007-019
(Continued)**

Failure to establish and implement proper accounting procedures could result in lost revenues for the Village. 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.
- When Income tax forms are not calculated correctly and/or lacking proper support the tax filers should be notified and proper amounts should be collected or refunded and adequate support should be obtained.
- Individual files should be established for each Village resident and all returns and all communications and related documents should be kept in each individuals file
- 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.
- Council should be reviewing all income tax records for accuracy and proper reporting.

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, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	Village Sewer Bond Ordinance 539 § 6(B)(2) Establishment of sinking fund	No	Not corrected. Reissued as finding 2007-004
2005-002	Village Sewer Bond Ordinance 539 § 6 Review surety bond amount to equal debt payment amount	No	Not corrected. Reissued as finding 2007-005.
2005-003	Village Sewer Bond Ordinance 539 § 8 Negative Sewer Fund balance	No	Not corrected. Reissued as finding 2007-006.
2005-004	Negative water Fund Balance	No	Not corrected. Reissued as finding 2007-007.
2005-005	7 CFR 1780.47(f)(2)(ii) Form RD 422-2 was not submitted for 2005 and 2004	No	Not corrected. Reissued as finding 2007-008.
2005-006	OPWC Loan Agreement, Article 2.2(b) 2005 and 2004 Reports were not file with OPWC as per Loan Agreement	No	Not corrected. Reissued as finding 2007-009.
2005-007	ORC § 5705.42 Recording transactions at net	Yes	
2005-008	ORC § 5705.10 incorrect receipts postings and negative fund balances	No	Not corrected. Reissued as finding 2007-010.
2005-009	Chapter 925.02 (f) water fund balance not credited back to accounts	No	Not corrected. Reissued as finding 2007-011.
2005-010	Village Resolution 437 allocation of income tax revenue	No	Not corrected. Reissued as finding 2007-012.
2005-011	ORC § 5705.41(D)(1) Expenditures not properly certified	No	Not corrected. Reissued as finding 2005-013.
2005-012	ORC § 5705.39 Appropriations exceeding Estimate Revenue	No	Not corrected. Reissued as finding 2005-014.
2005-013	ORC § 5705.41(B) Expenditures exceeding appropriations	No	Not corrected. Reissued as finding 2005-015.

Village of McClure
 Henry County
 Schedule of Prior Audit Findings
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2005-014	Material Weakness – Monitoring Village Financial Activity	No	Not corrected. Reissued as finding 2007-016.
2005-015	Material Weakness Cash Reconciliation Process	No	Not corrected. Reissued as finding 2005-017.
2005-016	Material Weakness Utility Account Processing Procedures	No	Not corrected. Reissued as finding 2003-018.
2005-017	Reportable Condition Village income tax record keeping procedures	No	Not corrected. Reissued as finding 2007-019.



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 13, 2009**