



**Auditor of State
Betty Montgomery**

VILLAGE OF HAMERSVILLE
BROWN COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Hamersville
Brown County
202 West Main Street
Hamersville, Ohio 45130

To the Village Council:

We have audited the accompanying financial statements of the Village of Hamersville, Brown County, Ohio (the Village), as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The Village's financial transactions were processed using 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 conduct the audit of 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.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

December 3, 2004

**VILLAGE OF HAMMERSVILLE
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$6,988	\$12,142	\$19,130
Intergovernmental Receipts	8,787	31,308	40,095
Fines, Licenses, and Permits	34,768		34,768
Earnings on Investments	2,487	147	2,634
Miscellaneous	1,323		1,323
	<u>54,353</u>	<u>43,597</u>	<u>97,950</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	37,527	1,933	39,460
Public Health Services	42,282		42,282
Transportation	314	22,063	22,377
Debt Service:			
Principal Payments	3,768		3,768
Interest Payments	762		762
	<u>84,653</u>	<u>23,996</u>	<u>108,649</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	<u>(30,300)</u>	<u>19,601</u>	<u>(10,699)</u>
Other Financing Receipts and (Disbursements):			
Other Financing Uses		<u>(5,257)</u>	<u>(5,257)</u>
Total Other Financing Receipts/(Disbursements)	<u>0</u>	<u>(5,257)</u>	<u>(5,257)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(30,300)	14,344	(15,956)
Fund Cash Balances, January 1	<u>57,955</u>	<u>38,492</u>	<u>96,447</u>
Fund Cash Balances, December 31	<u>\$27,655</u>	<u>\$52,836</u>	<u>\$80,491</u>
Reserves for Encumbrances, December 31	<u>\$355</u>	<u>\$725</u>	<u>\$1,080</u>

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

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Special Assessment	\$40,457	\$0	\$40,457
Charges for Services	699,047		699,047
Fines, Permits & Fees	13,120		13,120
Interest	451		451
Miscellaneous	475		475
	<u>753,550</u>	<u>0</u>	<u>753,550</u>
Operating Cash Disbursements:			
Personal Services	65,008		65,008
Fringe Benefits	13,286		13,286
Contractual Services	458,126		458,126
Supplies and Materials	40,703		40,703
Capital Outlay	4,973		4,973
Miscellaneous	31,366		31,366
	<u>613,462</u>	<u>0</u>	<u>613,462</u>
Operating Income/(Loss)	<u>140,088</u>	<u>0</u>	<u>140,088</u>
Non-Operating Cash Receipts:			
Other Non-Operating Receipts		38,291	38,291
	<u>0</u>	<u>38,291</u>	<u>38,291</u>
Non-Operating Cash Disbursements:			
Debt Service - Principal	15,000		15,000
Debt Service - Interest	57,569		57,569
Other Non-Operating Cash Disbursements		35,199	35,199
	<u>72,569</u>	<u>35,199</u>	<u>107,768</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	67,519	3,092	70,611
Transfers-In	39,591		39,591
Transfers-Out	(39,591)		(39,591)
Net Receipts Over/(Under) Disbursements	67,519	3,092	70,611
Fund Cash Balances, January 1	<u>607,927</u>	<u>1,907</u>	<u>609,834</u>
Fund Cash Balances, December 31	<u>\$675,446</u>	<u>\$4,999</u>	<u>\$680,445</u>
Reserve for Encumbrances, December 31	<u>\$5,076</u>	<u>\$0</u>	<u>\$5,076</u>

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

**VILLAGE OF HAMMERSVILLE
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$6,848	\$11,895	\$18,743
Intergovernmental Receipts	8,935	28,568	37,503
Fines, Licenses, and Permits	18,846		18,846
Earnings on Investments	4,336	330	4,666
Miscellaneous	192		192
	<u>39,157</u>	<u>40,793</u>	<u>79,950</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	32,815	1,755	34,570
Public Health Services	1,476		1,476
Transportation		28,115	28,115
Debt Service:			
Principal Payments	918		918
Interest Payments	215		215
Capital Outlay	42,056		42,056
	<u>77,480</u>	<u>29,870</u>	<u>107,350</u>
Total Receipts Over/(Under) Disbursements	<u>(38,323)</u>	<u>10,923</u>	<u>(27,400)</u>
Other Financing Receipts and (Disbursements):			
Other Financing Uses		(1,431)	(1,431)
Loan Proceeds	20,306		20,306
Transfers-In	11,431		11,431
Transfers-Out	0	(11,431)	(11,431)
	<u>31,737</u>	<u>(12,862)</u>	<u>18,875</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(6,586)	(1,939)	(8,525)
Fund Cash Balances, January 1	<u>64,541</u>	<u>40,431</u>	<u>104,972</u>
Fund Cash Balances, December 31	<u>\$57,955</u>	<u>\$38,492</u>	<u>\$96,447</u>
Reserves for Encumbrances, December 31	<u>\$677</u>	<u>\$231</u>	<u>\$908</u>

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

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Special Assessment	\$41,920	\$0	\$41,920
Charges for Services	\$700,060		\$700,060
Fines, Permits & Fees	\$11,587		\$11,587
Interest	\$2,259		\$2,259
Miscellaneous	8,719		8,719
	<u>764,545</u>	<u>0</u>	<u>764,545</u>
Operating Cash Disbursements:			
Personal Services	56,124		56,124
Fringe Benefits	13,602		13,602
Contractual Services	457,882		457,882
Supplies and Materials	22,567		22,567
Capital Outlay	163,587		163,587
Miscellaneous	17,701		17,701
	<u>731,463</u>	<u>0</u>	<u>731,463</u>
Operating Income/(Loss)	<u>33,082</u>	<u>0</u>	<u>33,082</u>
Non-Operating Cash Receipts:			
Other Non-Operating Receipts	<u>2,650</u>	<u>23,593</u>	<u>26,243</u>
Total Non-Operating Cash Receipts	<u>2,650</u>	<u>23,593</u>	<u>26,243</u>
Non-Operating Cash Disbursements:			
Debt Service - Principal	15,000		15,000
Debt Service - Interest	60,989		60,989
Other Non-Operating Cash Disbursements		<u>22,827</u>	<u>22,827</u>
Total Non-Operating Cash Disbursements	<u>75,989</u>	<u>22,827</u>	<u>98,816</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(40,257)	766	(39,491)
Transfers-In	34,993		34,993
Transfers-Out	<u>(34,993)</u>		<u>(34,993)</u>
Net Receipts Over/(Under) Disbursements	(40,257)	766	(39,491)
Fund Cash Balances, January 1	<u>648,184</u>	<u>1,141</u>	<u>649,325</u>
Fund Cash Balances, December 31	<u>\$607,927</u>	<u>\$1,907</u>	<u>\$609,834</u>
Reserve for Encumbrances, December 31	<u>\$10,208</u>	<u>\$0</u>	<u>\$10,208</u>

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

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Hamersville, Brown County, Ohio (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council and a Mayor. The Village provides water, sewer and refuse utilities, road maintenance, police and fire protection.

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

B. Basis of Accounting

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

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

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposits are valued at cost. Money Market mutual funds are recorded at share values reported by the mutual fund.

The Village has a checking account for all deposited funds which is separate from the Mayor's court checking account.

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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

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

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(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.

3. Enterprise Funds

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

Bond Retirement Fund – This fund is used to retire debt issued from the 2001 series B Sewer System Improvement Bond.

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Garbage Operating Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Electric Operating Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Placement & Improvement – This fund received proceeds from the issuance of mortgage revenue bonds as required by bond covenant and can only be used for major repairs or improvements in the Village sewer system.

4. Fiduciary Funds (Agency Funds)

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

Agency Fund – This fund receives fines collected by Mayor's Court which are distributed to the Village and State.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The 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.

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated. The Village did not encumber all commitments as required.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2003	2002
Demand deposits	\$552,665	\$494,125
Certificates of deposit	100,000	100,000
Total deposits	652,665	594,125
 Fifth Third U.S. Treasury Money Market Mutual Fund	\$108,271	112,156
Total Investments	\$108,271	\$112,156
 Total Deposits and Investments	\$760,936	\$706,281

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the Village, or (3) collateralized by the financial institution's public entity deposit pool.

Investments in mutual funds are not evidenced by securities that exist in physical or book-entry form.

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$39,435	\$54,353	\$14,918
Special Revenue	41,415	43,597	2,182
Enterprise	760,858	793,141	32,283
Total	\$841,708	\$891,091	\$49,383

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Budgeted Expenditures	Actual Expenditures	Variance
General	\$96,875	\$85,008	\$11,867
Special Revenue	80,643	29,978	50,665
Enterprise	1,266,748	730,698	536,050
Total	\$1,444,266	\$845,684	\$598,582

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	42,120	70,894	28,774
Special Revenue	29,160	40,793	11,633
Enterprise	715,500	802,188	86,688
Total	786,780	913,875	127,095

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Budgeted Expenditures	Actual Expenditures	Variance
General	\$105,869	\$78,157	\$27,712
Special Revenue	70,332	42,963	27,369
Enterprise	1,116,358	852,653	263,705
Total	\$1,292,559	\$973,773	\$318,786

In 2003, expenditures exceeded appropriations in the Bond Retirement Fund by \$27,569, and in 2002 by \$25,989; for 2003 the Project Fund by \$4,354 and for 2002 \$139,038; in the Sewer Construction Fund for 2002 \$3,573.

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, 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. DEBT

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest Rate
Sewer System Mortgage Revenue Bond	\$970,000	5.91%
Police Cruiser Loan SIB \$15,620	\$15,620	4.20%

The Village's Sewer System Mortgage Revenue Bonds were for the construction of the Village's sewer system. Per the debt covenants the Village transfers funds out of the Sewer Operating fund to the Bond Retirement Fund to repay these bonds.

The Village issued debt for the purchase of a police cruiser. The note is for five years with quarterly payments of \$1,131.

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

	Mortgage Revenue Bonds	Police Cruiser Loan
Year ending December 31:		
2004	\$71,744	\$4,524
2205	75,919	4,524
2006	74,819	4,524
2007	73,719	3,393
2008	72,619	
2009-2012	378,494	
2013-2017	365,700	
2018-2022	327,444	
2023-2027	323,900	
2028-2031	190,700	
Total	\$1,955,058	\$16,965

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. RETIREMENT SYSTEMS

All Village employees belong to the Public Employees Retirement System (PERS) of Ohio. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2003 and 2002. The Village has paid all contributions required through December 31, 2003.

7. RISK POOL MEMBERSHIP

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

PEP retains casualty risks up to \$250,000 per claim, including loss 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 \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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 village.

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:

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

7. RISK POOL MEMBERSHIP (Continued)

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$25,288,098	\$20,174,977
Liabilities	(12,872,985)	(8,550,749)
Retained earnings	<u>\$12,415,113</u>	<u>\$11,624,228</u>

<u>Property Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$3,158,813	\$2,565,408
Liabilities	(792,061)	(655,318)
Retained earnings	<u>\$2,366,752</u>	<u>\$1,910,090</u>

8. NONCOMPLIANCE

- Contrary to Ohio Rev. Code, Section 5705.41(D), the Village did not obtain prior certification of the fiscal officer for all purchases. As a result of this there were unrecorded encumbrances as of December 31, 2002 and 2003.
- The Village did not establish a Project, Bond, and Surplus Fund as required by Village Ordinance 2001-16.
- Contrary to Ohio Rev. Code, Sections 135.14 and 133.03(A)(1), the Village did not adopt or file an investment policy.
- Contrary to Ohio Rev. Code, Section 5705.10, the Village had negative fund balances in the Bond Retirement Fund as of December 31, 2002.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Village of Hamersville
Brown County
202 West Main Street
Hamersville, Ohio 45130

To the Village Council:

We have audited the accompanying financial statements of the Village of Hamersville, Brown County, Ohio (the Village), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated December 3, 2004. We also noted that the Village's financial transactions were processed using 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 conduct the audit of the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as Items 2003-001 through 2003-004. We noted immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated December 3, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the accompanying schedule of findings as items 2003-001 and 2003-005 through 2003-006.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are a material weakness. However, we noted certain matters involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Village in a separate letter dated December 3, 2004.

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

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

Betty Montgomery
Auditor of State

December 3, 2004

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

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

FINDING NUMBER 2003-001

Noncompliance Citation/Reportable Condition - Budgetary

Ohio Rev. Code, Section 5705, prescribes budgetary laws for the Village. The Village did not comply with the following sections of the code:

- A. Ohio Rev. Code, Section 5705.36, requires the Village to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any balances that existed at the end of the preceding year on or about the first day of each fiscal year. The Village did not file a Certificate of the Total Amount from All Sources Available for Expenditures, and Balances for 2003 and 2002 until February of each year.
- B. Ohio Rev. Code, Section 5705.41(B), states no subdivision or taxing unit is to expend money unless it has been appropriated. Expenditures exceeded appropriations in both 2003 and 2002 as followed.

Year	Fund	Appropriations	Expenditure	Variance
2002	Bond Retirement	50,000	75,989	(25,989)
2002	Sewer Construction	0	3,573	(3,573)
2002	Project Fund	0	139,038	(139,038)
2003	Bond Retirement	45,000	72,569	(27,569)
2003	Project Fund	0	4,354	(4,354)

- C. Ohio Rev. Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This Section also provides for two exceptions to the above requirements:

- 1. Then-and-Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- 2. If the amount involved is less than \$1,000 dollars (\$3,000 effective after 04/07/2003), the fiscal officer may authorize payment through a Then-and-Now Certificate without affirmation of the Village Council, if such expenditure is otherwise valid.

**FINDING NUMBER 2003-001
 (Continued)**

Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

We noted unrecorded liabilities as follows: These amounts were audit adjustments and are reflected on the accompanying financial statements.

2003 - Fund	Amount
General	\$ 55
Street Maintenance and Repair	\$ 125
Police	\$ 600
Water Operating	\$ 1,161
Sewer Operating	\$ 572
Electric	\$ 950
Garbage	\$ 2,392

2002 - Fund	Amount
General	\$ 677
Street Maintenance and Repair	\$ 231
Water Operating	\$ 4,289
Sewer Operating	\$ 2,859
Electric	\$ 787
Garbage	\$ 2,273

Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash balances. Therefore, we recommend the Village obtain approved purchase orders, which contain the Clerk's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment and funds be properly encumbered on their financial records.

FINDING NUMBER 2003-002

Noncompliance Citation - Bond Covenant

Sewer System Mortgage Revenue Improvement and Refunding Bonds, Series 2001 requires the establishment of a Project Fund for acquisition, construction and installation of the sewer project, a Bond Fund for the payment of principal and interest on the bonds and a Surplus Fund for paying the cost of repairing or replacing any unforeseen catastrophic damage to the System or for making principal and interest payments if the amount in the Bond Fund is not sufficient to meet such payments. The Village did not establish these funds until December 2003.

The bond covenant also requires a monthly transfer from the Sewer Operating Fund to the Bond Retirement Fund in the amount of one-sixth (1/6) of the interest due on all outstanding 2001 bonds on the next ensuing interest date; plus, commencing December 1, 2001 an amount equal to one-twelfth (1/12) of the principal due on the next ensuing principal payment due. The Clerk did not transfer as required by the bond covenants but made payments directly from the Sewer Operating and Bond Retirement Funds. We recommend the Village Clerk transfer the required amounts monthly as required by the bond covenants and make debt service payments from the Bond Retirement Fund. This would help ensure that funds would be available for the debt service payments and would avoid noncompliance of the debt covenants. The financial statements reflect the adjustments made to correct these items.

FINDING NUMBER 2003-003

Noncompliance Citation - Investment Policy

Ohio Rev. Code, Sections 135.14 (O)(1), requires that if a subdivision invests in investments other than interim deposits or STAR Ohio or its average annual portfolio of investments is \$100,000 or more, an investment policy must be filed with the Auditor of State. The Village invested in mutual funds through Fifth Third Bank in compliance with the 2001 series bond covenant, but did not file an investment policy with the Auditor of State's office.

FINDING NUMBER 2003-004

Material Noncompliance

Ohio Rev. Code, Section 5705.10, provides that monies paid into any fund shall be used only for the purpose for which such fund is established. The Bond Retirement Fund had a negative fund balance of \$5,003 at December 31, 2002. The deficit balances indicate that cash from other funds have been used to pay the obligations of this fund. As of December 31, 2003 the Village had a positive fund balance.

FINDING NUMBER 2003-005

Reportable Condition - Segregation of Duties - Government Oversight

The small size of the Village's staff does not allow for an adequate segregation of duties. The Clerk handles all the financial record keeping including receipting, depositing, check writing, check signing and posting. The weakness of this system is that it allows for diversion of funds through possible alteration of source documents. Also, bookkeeping errors may occur without detection in a timely manner.

The following conditions indicate a need for increased oversight of management by Council:

- Village cash management account activity was not posted;
- Receipts have been posted to incorrect funds and not detected; and
- Disbursements were not correctly posted, or not posted at all.
- Cash accounts were not reconciled to the accounting records.

To provide accountability and to strengthen internal accounting controls, officials should periodically review the records (i.e. reconciliations, etc), to determine accuracy and to verify that proper procedures were followed by the fiscal officer. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.

FINDING NUMBER 2003-006

Reportable Condition – Budgetary

Official budgetary documents did not always agree with the amounts posted to the Uniform Accounting System (UAN). This resulted in the budgetary statements prepared on the UAN system being incorrect. Only official documents approved by council, and if applicable the county auditor, should be posted to the UAN system. The Clerk should not make any changes to the system if they aren't properly approved. The Clerk should routinely compare amounts posted to the system to the official documents. Additionally, actual receipts and disbursements posted to the cashbook, receipt ledger, and appropriation ledger should agree to what is posted to the UAN budgetary system. When incorrect amounts are posted to the system, errors could be made in making financial decisions, care should be exercised over this process since budgetary is the basic foundation for all village financial activity.

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**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-001	Ohio Rev Code, Section 5705 – prescribes budgetary laws for the Village.	No	Repeated as Finding 2003-001
2001-002	Ohio Rev. Code, Section 733.28 – requires the Village clerk to maintain records accurately and completely	Yes	Corrected
2001-003	Ohio Rev. Code, Section 117.43 – describes requirements of a Uniform System of Accounting	Yes	Corrected
2001-004	Village Ordinance 2001-16 requires establishment of funds related to Debt Covenant	No	Repeated as Finding 2003-002
2001-005	Proper segregation of duties	No	Repeated as Finding 2003-005
2001-006	Ohio Rev. Code, Section 733.27 – the clerk shall attend all meetings of the legislative authority of the village and keep record	Yes	Corrected



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**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 28, 2004**