

VILLAGE OF HEMLOCK

AUDIT REPORT

JANUARY 1, 2003 – DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

Village Council
Village of Hemlock
8765 Main Street SE
Hemlock, Ohio 43730-9217

We have reviewed the *Independent Auditor's Report* of the Village of Hemlock, Perry County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period January 1, 2003 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

September 20, 2005

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**VILLAGE OF HEMLOCK
PERRY COUNTY**

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**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

INDEPENDENT AUDITORS' REPORT

Village of Hemlock
Perry County
8765 Main Street SE
Hemlock, Ohio 43730

We have audited the accompanying financial statements of Village of Hemlock, Perry County as of and for the years ended December 31, 2004 and 2003. 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.

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. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Village of Hemlock's combined funds as of December 31, 2004 and 2003, and their changes in financial position.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of Hemlock, Perry County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also require the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 1, 2005, on our consideration of Village of Hemlock's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
August 1, 2005

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES-ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 321	\$ -	\$ 321
Intergovernmental	6,962	2,735	9,697
Earnings on Investments	19	-	19
Miscellaneous	50	-	50
Total Cash Receipts	7,352	2,735	10,087
Cash Disbursements:			
Current:			
Basic Utility	462	-	462
Transportation	-	4,333	4,333
General Government	8,644	-	8,644
Capital Outlay	625	-	625
Total Cash Disbursements	9,731	4,333	14,064
Total Receipts Over/(Under) Cash Disbursements	(2,379)	(1,598)	(3,977)
Fund Cash Balances, January 1	31,465	5,488	36,953
Fund Cash Balances, December 31	\$ 29,086	\$ 3,890	\$ 32,976

See notes to financial statements.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

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

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 1,072	\$ -	\$ 1,072
Intergovernmental	7,966	3,136	11,102
Earnings on Investments	34	-	34
Miscellaneous	130	-	130
Total Cash Receipts	9,202	3,136	12,338
Cash Disbursements:			
Current:			
Basic Utility	912	-	912
Transportation	-	2,097	2,097
General Government	7,321	-	7,321
Capital Outlay	1,208	-	1,208
Total Cash Disbursements	9,441	2,097	11,538
Total Receipts Over/(Under) Cash Disbursements	(239)	1,039	800
Fund Cash Balances, January 1	31,704	4,449	36,153
Fund Cash Balances, December 31	\$ 31,465	\$ 5,488	\$ 36,953

See notes to financial statements.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Hemlock, Perry County, (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 an elected Mayor and Clerk. The Village provides maintenance of streets and highways.

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

Certificates of deposit are valued 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:

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.

Special Revenue Funds

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:

Street Construction, Maintenance and Repair Fund – This fund is used to account for gasoline tax and motor vehicle license tax monies for constructing, maintaining and repairing Village streets.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

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

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund 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. Unencumbered appropriations lapse at year end.

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.

Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and are reappropriated in the subsequent year. The Village did not encumber all commitments required by law.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2004</u>	<u>2003</u>
Demand deposits	\$ 30,476	\$ 34,453
Certificates of deposit	2,500	2,500
Total Deposits	<u>\$ 32,976</u>	<u>\$ 36,953</u>

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

**VILLAGE OF HEMLOCK
PERRY COUNTY**

NOTES TO FINANCIAL STATEMENTS

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ -	\$ 7,352	\$ 7,352
Special Revenue	-	2,735	2,735
Total	<u>\$ -</u>	<u>\$ 10,087</u>	<u>\$ 10,087</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ -	\$ 9,731	\$ (9,731)
Special Revenue	-	4,333	(4,333)
Total	<u>\$ -</u>	<u>\$ 14,064</u>	<u>\$ (14,064)</u>

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 9,380	\$ 9,202	\$ (178)
Special Revenue	2,450	3,136	686
Total	<u>\$ 11,830</u>	<u>\$ 12,338</u>	<u>\$ 508</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 37,350	\$ 9,441	\$ 27,909
Special Revenue	7,100	2,097	5,003
Total	<u>\$ 44,450</u>	<u>\$ 11,538</u>	<u>\$ 32,912</u>

Contrary to Ohio Revised Code Section 5705.39, in 2003 the Street fund appropriated more than estimated receipts by \$201

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.

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.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

NOTES TO FINANCIAL STATEMENTS

5. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, members of PERS contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants gross salaries. The Village has paid all employer contributions required through December 31, 2004.

6. RISK MANAGEMENT

The Village is uninsured for the following risks:

- Comprehensive property and general liability
- Public Officials' Liability

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENT PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.**

Village of Hemlock
Perry County
8765 Main Street SE
Hemlock, Ohio 43730

We have audited the financial statements of Village of Hemlock as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated August 1, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Hemlock internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management in a separate letter dated August 1, 2005.

Compliance

As part of obtaining reasonable assurance about whether Village of Hemlock's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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* and which are described in the accompanying Schedule of Findings as items 2004-01 through 2004-04. We also noted immaterial instances of noncompliance that we have reported to the management of Village of Hemlock in a separate letter dated August 1, 2005.

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

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
August 1, 2005

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-01

Noncompliance Citation and Material Weakness

Ohio Revised Code Section 5705.41(D), states 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 Village Clerk. 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:

- A. Then and Now Certificates – This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that the fiscal officer is completing the certification, 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 taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.
- B. If the amount involved is less than \$3,000 dollars the Village Clerk may authorize payment through a Then and Now Certificate without affirmation of the Village Council, if such expenditure is otherwise valid.

The Village's fiscal officer did not certify funds during the audit period either before or after a commitment was incurred. Failure to certify funds could result in deficit spending.

We recommend purchase orders be utilized to certify availability of funds prior to commitments being incurred. Appropriations should then be encumbered and balances maintained of unencumbered appropriations. Additional purchase orders should be issued only after the fiscal officer determines that sufficient unencumbered appropriations exist in the amount of the requested purchase.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-02

Noncompliance Citation

Ohio Revised Code Section 5705.38 states that on or about the first day of each fiscal year, an appropriation measure is to be passed. No appropriation measure shall become effective until the County Auditor files with the appropriating authority a certificate that total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official certificate.

There was no evidence presented for audit to indicate that either a temporary or annual appropriation measure was approved by the Village Council or submitted to the County Auditor for 2004.

We recommend the Village Council approve, and state in the minutes as evidence of approval, an appropriation measure on or about the first day of the year. The appropriation measure should be submitted to the County Auditor by the same date.

FINDING NUMBER 2004-03

Noncompliance Citation

Ohio Revised Code Section 5705.41(B) states, in part, that no subdivision or taxing unit is to expend money unless it has been appropriated.

All expenditures made during 2004 were made without properly being appropriated. This amounted to \$14,064 being expended without any budgetary expenditure amount being passed to restrict expenditures.

We recommend the Village Council approve, and state in the minutes as approval, an appropriation measure on or about the first day of the year. This appropriation measure should be submitted to the County Auditor by the same date. The Clerk should deny any payment that would cause expenditures to exceed appropriations.

FINDING NUMBER 2004-04

Noncompliance Citation and Material Weakness

Ohio Admin Code 117-2-02 states that all public offices shall maintain an accounting system and accounting records to enable the public office to identify, assemble, analyze, classify, record and report its transactions and prepare financial statements.

The Clerk maintained neither a receipts ledger nor an appropriation ledger. As a result, the Village was not able to report budgeted revenues and expenditures (appropriations) and budget versus actual comparisons were not readily available for use as a basis for managing the Village.

We recommend the Village maintain a receipts ledger and an appropriations ledger in order that monthly budget versus actual comparisons can be made to assist management in monitoring Village operations. Receipts and appropriation ledgers will enable the Village to record and report its budgetary transactions and prepare financial statements.

**VILLAGE OF HEMLOCK
PERRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-31064-001	5705.41(D) Prior Certification	No	Not Corrected: Cited in current report as citation 2004-01



**Auditor of State
Betty Montgomery**

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VILLAGE OF HEMLOCK

PERRY 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
OCTOBER 4, 2005**