



**Auditor of State
Betty Montgomery**

VILLAGE OF HILLS AND DALES
STARK COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Hills and Dales
Stark County
2200 Dunkeith Drive N.W.
Canton, Ohio 44708

To the Village Council:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Hills and Dales, Stark County, Ohio, (the Village) as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities and each major fund of the Village of Hills and Dales, Stark County, Ohio, as of December 31, 2005, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund and the Police Fund thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

For the year ended December 31, 2005, the Village revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006, 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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Betty Montgomery
Auditor of State

September 22, 2006

Village of Hills and Dales
Stark County

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

This discussion and analysis of the Village of Hills and Dale's financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2005, within the limitations of the Village's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2005 are as follows:

Net assets of governmental activities were \$2,287,242.

The Village's general receipts are primarily property taxes, interest and grants and entitlements not restricted to specific programs. These receipts represent 98 percent of the total cash received for governmental activities during the year.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Village has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Village of Hills and Dales
Stark County

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Reporting the Village as a Whole

The statement of net assets and the statement of activities reflect how the Village did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances of the governmental activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and activity. Program receipts consisted of charges for services and grants and contributions restricted to meeting the operational requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other non-financial factors as well such as the Village's property tax base, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the statement of net assets and the statement of activities, the governmental activities include the Village's programs and services, including general government services and police protection.

Reporting the Village's Most Significant Funds

Fund financial statements provide detailed information about the Village's major governmental funds – not the Village as a whole. The Village establishes separate funds to better manage its activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The Village's significant governmental funds are presented on the financial statements in separate columns. The Village's major governmental funds are as follows: General Fund and the Police Fund.

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2005 on a modified cash basis. Since the Village did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Village of Hills and Dales
Stark County

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

(Table 1)
Net Assets

	<u>Governmental Activities</u> <u>2005</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 2,287,242
Net Assets	
Restricted for:	
Other Purposes	38,693
Unrestricted	<u>2,248,549</u>
Total Net Assets	<u><u>\$2,287,242</u></u>

Over time, net assets can serve as a useful indicator of a government's financial position.

Table 2 reflects the changes in net assets in 2005. Since the Village did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Village of Hills and Dales
Stark County

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

(Table 2)
Changes in Net Assets

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services	\$35
Operating Grants and Contributions	7,044
Total Program Receipts	<u>7,079</u>
General Receipts:	
Property Taxes	182,533
Grants and Entitlements Not Restricted to Specific Programs	51,676
Interest	76,714
Miscellaneous	11,674
Total General Receipts	<u>322,597</u>
Total Receipts	<u>329,676</u>
Disbursements:	
Security of Persons and Property	218,034
Public Health Services	8,047
Leisure Time Activities	74,619
Community Environment	2,291
Basic Utility Services	5,316
Transportation	1,598
General Government	88,263
Capital Outlay	68,366
Total Disbursements	<u>466,534</u>
Decrease in Net Assets	(136,858)
Net Assets, January 1, 2005	2,424,100
Net Assets, December 31, 2005	<u><u>\$2,287,242</u></u>

Program receipts represent 2 percent of total receipts and are primarily comprised of restricted intergovernmental receipts.

General receipts represent 98 percent of the Village's total receipts, and of this amount, 55 percent are property taxes. State and federal grants and entitlements and interest make up the majority of the remaining balance of the Village's general receipts (39 percent). Miscellaneous receipts are insignificant and somewhat unpredictable revenue sources.

Village of Hills and Dales
Stark County

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for the other Village activities. These costs do not represent direct services to residents.

Governmental Activities

If you look at the Statement of Activities on page 10, you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for security of persons and property, which account for 47 percent of all governmental disbursements. General government also represents a significant cost, about 19 percent. The next columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Village that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3. Since the Village did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

(Table 3)

Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005
Security of Persons and Property	\$218,034	(\$218,034)
Public Health Services	8,047	(8,047)
Leisure Time Activities	74,619	(74,619)
Community Environment	2,291	(2,291)
Basic Utility Services	5,316	(5,316)
Transportation	1,598	4,693
General Government	88,263	(87,475)
Capital Outlay	68,366	(68,366)
Total Expenses	<u>\$466,534</u>	<u>(\$459,455)</u>

The dependence upon property tax receipts is apparent as over 39 percent of governmental activities are supported through these general receipts.

The Village's Funds

Total governmental funds had receipts of \$329,676 and disbursements of \$466,534. The greatest change within governmental funds occurred within the General Fund.

Village of Hills and Dales
Stark County

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

General Fund Budgeting Highlights

The Village's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The most significant budgeted fund is the General Fund.

During 2005, final budgeted receipts for the Village's General Fund were \$88,200 and actual receipts were \$102,286.

Final disbursements were budgeted at \$337,712 while actual disbursements were \$245,655.

Current Issues

The challenge for all Governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes.

Contacting the Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Mischeal McKenna, Clerk-Treasurer, Village of Hills and Dales, 2200 Dunkeith Drive N.W., Canton, Ohio 44708.

**VILLAGE OF HILLS AND DALES
STARK COUNTY**

Statement of Net Assets - Modified Cash Basis
December 31, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,287,242
Net Assets	
Restricted for:	
Other Purposes	38,693
Unrestricted	2,248,549
<i>Total Net Assets</i>	<u>\$2,287,242</u>

See accompanying notes to the financial statements.

**VILLAGE OF HILLS AND DALES
STARK COUNTY**

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2005

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Security of Persons and Property	\$218,034			(\$218,034)
Public Health Services	8,047			(8,047)
Leisure Time Activities	74,619			(74,619)
Community Environment	2,291			(2,291)
Basic Utility Services	5,316			(5,316)
Transportation	1,598		\$6,291	4,693
General Government	88,263	\$35	753	(87,475)
Capital Outlay	68,366			(68,366)
<i>Total Governmental Activities</i>	<u>466,534</u>	<u>35</u>	<u>7,044</u>	<u>(459,455)</u>
		General Receipts		
		Property Taxes Levied for:		
		General Purposes		182,533
		Grants and Entitlements not Restricted to Specific Programs		51,676
		Interest		76,714
		Miscellaneous		11,674
		<i>Total General Receipts</i>		<u>322,597</u>
		Change in Net Assets		(136,858)
		<i>Net Assets Beginning of Year</i>		<u>2,424,100</u>
		<i>Net Assets End of Year</i>		<u><u>\$2,287,242</u></u>

See accompanying notes to the financial statements

**VILLAGE OF HILLS AND DALES
STARK COUNTY**

Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005

	General	Police	Other Governmental	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,248,549	\$25,633	\$13,060	\$2,287,242
Fund Balances				
Reserved:				
Reserved for Encumbrances		971		971
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	2,248,549			2,248,549
Special Revenue Funds		24,662	13,060	37,722
<i>Total Fund Balances</i>	<u>\$2,248,549</u>	<u>\$25,633</u>	<u>\$13,060</u>	<u>\$2,287,242</u>

See accompanying notes to the financial statements

**VILLAGE OF HILLS AND DALES
STARK COUNTY**

Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Police	Other Governmental	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$162	\$182,371		\$182,533
Intergovernmental	25,572	26,104	\$6,291	57,967
Fines, Licenses, and Permits		753	35	788
Earnings on Investments	76,510		204	76,714
Miscellaneous	42	11,632		11,674
<i>Total Receipts</i>	<u>102,286</u>	<u>220,860</u>	<u>6,530</u>	<u>329,676</u>
Disbursements				
Current:				
Security of Persons and Property	2,500	214,622	912	218,034
Public Health Services	1,553	6,494		8,047
Leisure Time Activities	74,619			74,619
Community Environment	593	1,698		2,291
Basic Utility Services	1,916	3,400		5,316
Transportation	1,598			1,598
General Government	78,193	9,816	254	88,263
Capital Outlay	39,291	27,775	1,300	68,366
<i>Total Disbursements</i>	<u>200,263</u>	<u>263,805</u>	<u>2,466</u>	<u>466,534</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(97,977)</u>	<u>(42,945)</u>	<u>4,064</u>	<u>(136,858)</u>
<i>Net Change in Fund Balances</i>	<u>(97,977)</u>	<u>(42,945)</u>	<u>4,064</u>	<u>(136,858)</u>
<i>Fund Balances Beginning of Year</i>	<u>2,346,526</u>	<u>68,578</u>	<u>8,996</u>	<u>2,424,100</u>
<i>Fund Balances End of Year</i>	<u>\$2,248,549</u>	<u>\$25,633</u>	<u>\$13,060</u>	<u>\$2,287,242</u>

See accompanying notes to the financial statements

**VILLAGE OF HILLS AND DALES
STARK COUNTY**

Statement of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes			\$162	\$162
Intergovernmental	\$12,200	\$12,200	25,572	13,372
Earnings on Investments	75,000	75,000	76,510	1,510
Miscellaneous	1,000	1,000	42	(958)
<i>Total Receipts</i>	<u>88,200</u>	<u>88,200</u>	<u>102,286</u>	<u>14,086</u>
Disbursements				
Current:				
Security of Persons and Property	3,000	3,000	2,500	500
Public Health Services		1,700	1,553	147
Leisure Time Activities	84,000	109,347	90,022	19,325
Community Environment		593	593	0
Basic Utility Services	2,900	2,900	1,916	984
Transportation	1,500	2,305	1,606	699
General Government	83,300	116,134	108,173	7,961
Capital Outlay	77,000	97,733	39,292	58,441
<i>Total Disbursements</i>	<u>251,700</u>	<u>333,712</u>	<u>245,655</u>	<u>88,057</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(163,500)</u>	<u>(245,512)</u>	<u>(143,369)</u>	<u>102,143</u>
Other Financing Sources (Uses)				
Transfers Out	6,000	6,000	0	(6,000)
<i>Net Change in Fund Balance</i>	<u>(163,500)</u>	<u>(245,512)</u>	<u>(143,369)</u>	<u>102,143</u>
<i>Fund Balance Beginning of Year</i>	2,276,514	2,276,514	2,276,514	0
<i>Prior Year Encumbrances Appropriated</i>	<u>70,012</u>	<u>70,012</u>	<u>70,012</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$2,183,026</u>	<u>\$2,101,014</u>	<u>\$2,203,157</u>	<u>\$102,143</u>

See accompanying notes to the financial statements

**VILLAGE OF HILLS AND DALES
STARK COUNTY**

Statement of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual - Budget Basis
Police Fund
For the Year Ended December 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$209,355	\$209,355	\$182,371	(\$26,984)
Intergovernmental	66,925	66,925	26,104	(40,821)
Fines, Licenses, and Permits	1,500	1,500	753	(747)
Miscellaneous	10,000	10,000	11,632	1,632
<i>Total Receipts</i>	<u>287,780</u>	<u>287,780</u>	<u>220,860</u>	<u>(66,920)</u>
Disbursements				
Current:				
Security of Persons and Property	233,070	233,626	215,592	18,034
Public Health Services	13,500	10,171	6,494	3,677
Community Environment	2,500	3,929	1,698	2,231
Basic Utility Services	3,000	3,400	3,400	0
General Government	7,710	10,210	9,816	394
Capital Outlay	28,000	27,839	27,775	64
<i>Total Disbursements</i>	<u>287,780</u>	<u>289,175</u>	<u>264,775</u>	<u>24,400</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>0</u>	<u>(1,395)</u>	<u>(43,915)</u>	<u>(42,520)</u>
<i>Net Change in Fund Balance</i>	<u>0</u>	<u>(1,395)</u>	<u>(43,915)</u>	<u>(42,520)</u>
<i>Fund Balance Beginning of Year</i>	67,183	67,183	67,183	0
<i>Prior Year Encumbrances Appropriated</i>	1,395	1,395	1,395	0
<i>Fund Balance End of Year</i>	<u>\$68,578</u>	<u>\$67,183</u>	<u>\$24,663</u>	<u>(\$42,520)</u>

See accompanying notes to the financial statements

**Village of Hills and Dales
Stark County**

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 1 – Reporting Entity

The Village of Hills and Dales, Stark County, Ohio (the Village), is a body politic and corporate 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.

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

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The Village provides general government services, including park operations and police services.

B. Component Units

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village.

The Village of Hills and Dales has no component units.

C. Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Under the modified cash basis of accounting, the Village does not report assets for equity interests in joint ventures.

As presented in Note 11, the Village is associated with Local Organized Governments in Cooperation RED Center Operations, which is defined as a joint venture under Governmental Accounting Standards Board (GASB) Statement No. 14, Reporting Entity. In addition, as presented in Note 12, the Village is associated with Stark Council of Governments, which is defined as a jointly governed organization under Governmental Accounting Standards Board (GASB) Statement No. 14, Reporting Entity.

**Village of Hills and Dales
Stark County**

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. Following are the more significant of the Village's accounting policies.

A. Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government. All activities of the Village are governmental activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. The Village does not report any business-type activities, which generally are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balances of the governmental activities of the Village at year end. The statement of activities compares disbursements with program receipts for each of the Village's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts consist of grants and contributions restricted to meeting the operational requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the Village's general receipts.

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column.

**Village of Hills and Dales
Stark County**

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

The Village uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. All of the Village's funds are categorized as governmental.

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Village's major governmental funds are the General Fund and the Police Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio. The Police Fund is used to account for tax monies which the Village can only use to pay for police protection.

C. Basis of Accounting

The Village's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Village are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount the Village may appropriate.

The appropriations ordinance is the Village's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the Village. The legal level of control has been established at the fund, function, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Village.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Village during the year.

**Village of Hills and Dales
Stark County**

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents.

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 negative receipts (contra revenue), respectively.

During 2005, the Village invested in STAR Ohio, overnight repurchase agreements, and non-negotiable certificates of deposit. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005. Certificates of deposit and repurchase agreements are valued at cost.

Interest earnings are allocated to Village funds according to State statutes. Interest receipts credited to the General Fund during 2005 was \$76,510.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. During 2005, the Village reported restricted assets of \$38,693.

G. Inventory and Prepaid Items

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

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

I. Interfund Receivables/Payables

The Village reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements. During 2005, the Village did not report any interfund loans.

J. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**Village of Hills and Dales
Stark County**

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (Continued)

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for taxes or grant requirements.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Fund Balance Reserves

The Village reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

M. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

Note 3 – Change in Basis of Accounting and Restatement of Fund Equity

Last year the Village reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year, the Village has implemented the modified cash basis of accounting described in Note 2. The fund financial statements now present each major fund in a separate column.

Note 4 – Compliance

Contrary to Ohio Rev. Code Sections 307.86 and 731.14, the Village paid Rice's Nursery and Landscaping \$51,777 without competitively bidding and entering into a contract.

Note 5 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund and any major special revenue fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference(s) between the budgetary basis and the modified cash basis are outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance.

**Village of Hills and Dales
Stark County**

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 6 – Deposits and Investments

Monies held by the Village are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Village treasury. Active monies must be maintained either as cash in the Village treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Trustees have identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Village can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,941,879 of the Village's bank balance of \$2,145,018 was exposed to custodial credit risk because those deposits were insured and collateralized with securities specifically pledged by the financial institution to the Village.

**Village of Hills and Dales
Stark County**

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 6 – Deposits and Investments (Continued)

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of December 31, 2005, the Village had the following investments:

	<u>Carrying Value</u>	<u>Maturity</u>
STAR Ohio	\$95,998	Average
Repurchase Agreement	75,000	Daily
Total Portfolio	<u>\$170,998</u>	

STAR Ohio carries a rating of AAAM by Standard and Poor's. The Village has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Repurchase agreements are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Village's name. The Village has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Note 7 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**Village of Hills and Dales
Stark County**

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 7 – Property Taxes (Continued)

The full tax rate for all Village operations for the year ended December 31, 2005, was \$7.90 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$13,215,680
Commercial/Industrial/Mineral	390
Public Utility Property	
Personal	409,340
Tangible Personal Property	46,970
Total Assessed Value	<u>\$13,672,380</u>

Note 8 – Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

The Village also provides health insurance and dental and vision coverage to full-time employees through the Ohio Public Entity Consortium.

Note 9 – Defined Benefit Pension Plan

The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

**Village of Hills and Dales
Stark County**

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 9 – Defined Benefit Pension Plan (Continued)

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The Village's contribution rate for pension benefits for 2005 was 13.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$30,668, \$26,176 and \$28,481, respectively. The full amount has been contributed for 2005, 2004 and 2003.

Note 10 – Postemployment Benefits

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$6,234. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

**Village of Hills and Dales
Stark County**

Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 11 – Joint Venture

The Village is a member of the Local Organized Governments in Cooperation (LOGIC) RED Center Operations, a statutorily created political subdivision of the State formed in 1986 to provide safety dispatching services. LOGIC is a joint venture among the Village, City of Massillon, Jackson Township, and the City of Canal Fulton, with each participant providing one representative. Each representative has a membership share based on the percentage of contractual financial contributions to the total funding, and each participant is entitled to vote its percentage share. The Board has total authority over the operation of LOGIC, including budgeting, appropriating, contracting, and designating management. Continued existence of LOGIC is not dependent on the Village's continued participation. LOGIC does not provide specific financial benefits or impose specific financial burdens on the Village. During 2005, the Village made contributions of \$2,941, but does not have an equity interest in LOGIC. Financial statements of LOGIC may be obtained from Local Organized Governments in Cooperation, Canton, Ohio.

Note 12 – Jointly Governed Organization

The Village participates in the Stark Council of Governments (the Council), which is a statutorily created political subdivision of the State. The Council is jointly governed among Stark County, municipalities and townships with twenty-four participants providing twenty-seven representatives. The Village appoints a representative and has a membership share based on the percentage of contractual financial contributions to the total funding. Each participant is entitled to vote its percentage share. The board exercises total authority over the operation of the Council including budgeting, appropriating, contracting and designating management. Continued existence of the Council is not dependent on the Village's continued participation. The Council does not provide specific financial benefits or impose specific financial burdens on the Village. The Village did not make any contributions during the fiscal year 2004 and does not have an equity interest in the Council. Financial statements of the Council may be obtained from the Stark Council of Governments, Canton, Ohio.



**Auditor of State
Betty Montgomery**

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

Village of Hills and Dales
Stark County
2200 Dunkeith Drive N.W.
Canton, Ohio 44708

To the Village Council:

We have audited the financial statements of the governmental activities and each major fund of the Village of Hills and Dales, Stark County, Ohio, (the Village) as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements and have issued our report thereon dated September 22, 2006, wherein we noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

In a separate letter to the Village's management dated September 22, 2006, we reported matters involving internal control over financial reporting we did not deem a reportable condition.

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 an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2005-001.

In a separate letter to the Village's management dated September 22, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and Village Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

September 22, 2006

VILLAGE OF HILLS AND DALES
STARK COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005

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

FINDING NUMBER 2005-001

Ohio Rev. Code Section 307.86 requires competitive bidding when anything to be purchased, leased, leased with an option or agreement to purchase, or constructed, including, but not limited to, any product, structure, construction, reconstruction, improvement, maintenance, repair, or service, except the services of accountant, architect, attorney at law, physician, professional engineer, construction project manager, consultant, surveyor, or appraiser, when the cost is in excess of \$25,000. Also, **Ohio Rev. Code Section 731.14** requires the execution of a contract in the name of the Village and signed on its behalf by the Village Mayor and Village Clerk when any expenditure exceeds \$25,000. The contract shall be in writing and made with the lowest and best bidder after advertising for not less than two or more than four consecutive weeks in a newspaper of general circulation within the Village. The bids shall be opened and shall be publicly read by the Village Clerk at the time, date, and place specified in the advertisement.

During 2005, the Village paid \$51,770 to Rice's Nursery and Landscaping, Inc. without competitively bidding and entering into a contract. The Village should follow competitive bidding procedures for all contracts subject to Ohio Rev. Code Section 731.14 which exceed \$25,000.

Officials' Response: No response was received from Officials for the finding.

**VILLAGE OF HILLS AND DALES
STARK COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 307.86 and Ohio Rev. Code Section 731.14, not competitively bidding when cost is in excess of \$25,000 and not executing contracts	No	Finding not corrected. Included in 2005 Schedule of Findings as item 2005-001.
2004-002	Ohio Rev. Code Section 5705.41(D), failure to certify funds	No	Partially corrected. Included in 2005 Management Letter.



**Auditor of State
Betty Montgomery**

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VILLAGE OF HILL AND DALES

STARK 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
NOVEMBER 9, 2006**