

***VILLAGE OF PHILO
MUSKINGUM COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2006 & 2005

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA

Auditor of State

Village Council
Village of Philo
565 Water St.
Philo, OH 43771

We have reviewed the *Report of Independent Accountants* of the Village of Philo, Muskingum County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2005 through December 31, 2006. 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 *Report of Independent Accountants* 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 *Report of Independent Accountants* 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 Philo is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 24, 2007

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**VILLAGE OF PHILO
MUSKINGUM COUNTY
AUDIT REPORT
For the Years Ending December 31, 2006 and 2005**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Philo, Muskingum County
316 Main Street
Philo, Ohio 43771

To the Village Council:

We have audited the accompanying financial statements of the Village of Philo, Muskingum County, Ohio as and for the years ended December 31, 2006 and 2005. 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 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. 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 (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. 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 the 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 two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006 and 2005, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Philo, Muskingum County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2007, 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 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.

Charles E. Harris & Associates, Inc.

June 1, 2007

VILLAGE OF PHILO
MUSKINGUM COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES -
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Receipts:			
Property Taxes and Other Local Taxes	\$ 38,926	-	\$ 38,926
Intergovernmental	28,015	\$ 33,908	61,923
Miscellaneous	8,112	3,282	11,394
Total Receipts	<u>75,053</u>	<u>37,190</u>	<u>112,243</u>
Disbursements:			
General Government	29,669	-	29,669
Security of Persons & Property	6,017	-	6,017
Public Works	11,276	32,301	43,577
Total Disbursements	<u>46,962</u>	<u>32,301</u>	<u>79,263</u>
Total Receipts Over(Under) Disbursements	28,091	4,889	32,980
Fund Balance 1/1/2006	<u>23,799</u>	<u>792</u>	<u>24,591</u>
Fund Balance 12/31/2006	<u>\$ 51,890</u>	<u>\$ 5,681</u>	<u>\$ 57,571</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF PHILO
MUSKINGUM COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND BALANCES
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2006

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 63,118
	63,118
Total Operating Cash Receipts	63,118
Operating Cash Disbursements:	
Personal Services	27,450
Contractual Services	10,040
Supplies and Materials	11,946
Capital Outlay	1,705
	51,141
Total Operating Cash Disbursements	51,141
Operating Income / (Loss)	11,977
Non-Operating Receipts/(Disbursements)	
Earnings on Investments	1,801
Miscellaneous	13,662
Debt Service:	
Principal	(2,594)
Interest	(1,025)
	11,844
Total Non-Operating Receipts/(Disbursements)	11,844
Excess of Receipts Over/(Under) Disbursements	23,821
Fund Cash Balances, January 1, 2006	83,335
Fund Cash Balances, December 31, 2006	\$ 107,156

See accompanying Notes to the Financial Statements.

VILLAGE OF PHILO
MUSKINGUM COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES -
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Receipts:			
Property Taxes and Other Local Taxes	\$ 40,423	-	\$ 40,423
Intergovernmental	63,122	\$ 27,934	91,056
Miscellaneous	10,194	-	10,194
Total Receipts	<u>113,739</u>	<u>27,934</u>	<u>141,673</u>
Disbursements:			
General Government	146,651	-	146,651
Security of Persons & Property	5,832	-	5,832
Public Works	35,314	24,453	59,767
Total Disbursements	<u>187,797</u>	<u>24,453</u>	<u>212,250</u>
Total Receipts Over(Under) Disbursements	(74,058)	3,481	(70,577)
Fund Balance 1/1/2005	<u>97,857</u>	<u>(2,689)</u>	<u>95,168</u>
Fund Balance 12/31/2005	<u>\$ 23,799</u>	<u>\$ 792</u>	<u>\$ 24,591</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF PHILO
MUSKINGUM COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND BALANCES
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2005

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 76,081
Total Operating Cash Receipts	76,081
Operating Cash Disbursements:	
Personal Services	25,520
Contractual Services	8,531
Supplies and Materials	18,649
Capital Outlay	17,268
Total Operating Cash Disbursements	69,968
Operating Income / (Loss)	6,113
Non-Operating Receipts/(Disbursements)	
Earnings on Investments	1,012
Miscellaneous	(299)
Debt Service:	
Principal	(2,541)
Interest	(1,078)
Total Non-Operating Receipts/(Disbursements)	(2,906)
Excess of Receipts Over/(Under) Disbursements	3,207
Fund Cash Balances, January 1, 2005	80,128
Fund Cash Balances, December 31, 2005	\$ 83,335

See accompanying Notes to the Financial Statements.

**VILLAGE OF PHILO
MUSKINGUM COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Philo, (the Village) is a body corporate and politic established for the purpose of exercising 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 provides water, refuse collection, cemetery maintenance, street maintenance and police and fire services.

The Village's management believes these financial statements included in this report represent all of the funds of the Village over which the Village has the ability to exercise direct operating control.

B. BASIS OF ACCOUNTING

The Village prepares its financial statements following the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis 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.)

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

C. CASH

The Village's certificates of deposit are valued at cost.

D. FUND ACCOUNTING

The Village maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

General Fund: The general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

VILLAGE OF PHILO
MUSKINGUM COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. FUND ACCOUNTING - (Continued)

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

- Street Construction Maintenance and Repair fund is used to account for proceeds restricted for the maintenance and upkeep of Village streets.

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 Fund:

- Water fund is used to account for the resources generated by supplying water to Village residents.

E. BUDGETARY PROCESS

A budget of estimated cash receipts and disbursements is prepared by the Clerk, approved by the Council, and submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

1. Estimated Resources

The county auditor calculates the estimated revenues available to the Village. He prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the Village. The certificate is approved by the county budget commission and sent to the Village Clerk by September 1.

Prior to December 31, the Village must revise its budget so that the total budgeted expenditures for a fund will not exceed the amount of stated in the certificate of estimated resources. The revised budget serves as the basis for the annual appropriation measure.

VILLAGE OF PHILO
MUSKINGUM COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. BUDGETARY PROCESS – (Continued)

On or about January 1, the Clerk sends the county auditor a certificate to which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate, submits it to the county budget commission for approval. This amended certificate may be further amended during the year if projected increases or the Clerk identifies decreases in revenue. The amounts reported in the budgetary footnote reflect the amounts in the final amended certificates issued during 2005 and 2006.

Budget receipts, as shown in footnote number 4, do not include the unencumbered fund balances as of January 1, 2005 and 2006. However, those fund balances are available for appropriation.

2. Appropriations

A temporary appropriation measure to control cash expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by March 31 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

3. Encumbrances

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The sum of expenditures and encumbrances may not exceed appropriated totals at any level of budgetary control. The legal level of control is the object level.

Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year without being re-appropriated.

A summary of budgetary activity appears in Note 4.

**VILLAGE OF PHILO
MUSKINGUM COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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 CASH EQUIVALENTS

The Village maintains a cash and investment 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:

	<u>2006</u>	<u>2005</u>
Demand deposits	\$ 102,892	\$ 47,892
Certificate of deposit	<u>61,835</u>	<u>60,034</u>
Total deposits and investments	<u>\$ 164,727</u>	<u>\$ 107,926</u>

Deposits: Deposits are either (1) insured by the Federal Deposit Insurance Corporation, or (2) collateralized by securities specifically pledged by the financial institution to the Village.

3. PROPERTY TAX

Real property taxes are levied on assessed values, which equal 35% of appraised value. The county auditor reappraises all real property every six years with a triennial update.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. 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 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

**VILLAGE OF PHILO
MUSKINGUM COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

3. PROPERTY TAX – (Continued)

The State Board of Tax Equalization adjusts the tax rates for inflation. Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio. The amounts reimbursed by the State of Ohio are reflected in the accompanying financial statements as intergovernmental receipts.

Public utilities are also taxed on personal and real property located within the Township. 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 Muskingum County Treasurer collects property tax on behalf of all taxing Villages within the county. The Muskingum County Auditor periodically remits to the taxing Village their portions of the taxes collected.

4. BUDGETARY

Budgetary activity for the year ended December 31, 2006 follows:

<u>2006 Budgeted vs Actual Receipts</u>			
<u>Fund</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General Fund	\$ 75,988	\$ 75,053	\$ (935)
Special Revenue Funds	23,000	37,190	14,190
Enterprise Fund	95,000	78,581	(16,419)

<u>2006 Budgeted vs Actual Budgetary Basis Expenditures</u>			
<u>Fund</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General Fund	\$ 98,000	\$ 46,962	\$ 51,038
Special Revenue Funds	26,000	32,301	(6,301)
Enterprise Fund	118,000	54,760	63,240

Budgetary activity for the year ended December 31, 2005 follows:

<u>2005 Budgeted vs Actual Receipts</u>			
<u>Fund</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General Fund	\$ 85,000	\$ 113,739	\$ 28,739
Special Revenue Funds	22,000	27,934	5,934
Enterprise Fund	117,150	77,093	(40,057)

**VILLAGE OF PHILO
MUSKINGUM COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

2005 Budgeted vs Actual Budgetary Basis Expenditures

<u>Fund</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General Fund	\$ 181,500	\$ 187,797	\$ (6,297)
Special Revenue Funds	22,000	24,453	2,453
Enterprise Fund	128,000	73,886	54,114

5. RETIREMENT SYSTEM

The Village employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS 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.

The Ohio Revised Code provides statutory authority for employee and employer contributions. During 2006 and 2005 OPERS participants contributed 9 percent and 8.5 percent, respectively of their wages and the Village contributed an amount equal to 13.70 percent and 13.55 percent, respectively of their wages. The Village has paid all contributions required through December 31, 2006.

6. DEBT

Debt outstanding as of December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission	\$ 49,345	2.00%

The Ohio Public Works Commission (OPWC) loan relate to the water tower. The loan is collateralized by water receipts.

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

	<u>OPWC Loan</u>
Year ending December 31:	
2007	\$ 3,619
2008	3,619
2009	3,619
2010	3,619
2011	3,619
2012-2016	18,095
2017-2021	18,095
2022-2023	5,429
Total	<u>\$ 59,714</u>

VILLAGE OF PHILO
MUSKINGUM COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

7. RISK MANAGEMENT

RISK POOL MEMBERSHIP

The Village belongs to the Ohio Government Risk Management Plan (“the Plan”), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 600 Ohio governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member’s needs. The Plan pays judgments, settlements, and other expenses resulting from covered claims that exceed the Member’s deductible.

The Plan issues its own policies and reinsures the Plan with A-Vii or better rated carriers, except for the 5% portion retained by the Plan. After September 1, 2003, the Plan pays the lesser of 5% or \$25,000 of casualty losses and the lesser of 5% or \$50,000 of property losses. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Pool’s audited financial statements conform to generally accepted accounting principles, and reported the following assets, liabilities and member’s equity at December 31:

	<u>2006</u>	<u>2005</u>
Assets	\$ 9,620,148	\$ 8,219,430
Liabilities	<u>3,329,620</u>	<u>2,748,639</u>
Retained Earnings	<u>\$ 6,290,528</u>	<u>\$ 5,470,791</u>

You can read the complete audited financial statements for the Ohio Government Risk Management at the Plan’s website, www.ohioplan.org.

8. SUBSEQUENT EVENTS/PENDING LITIGATION

Management believes there are no pending claims or lawsuits.

VILLAGE OF PHILO
MUSKINGUM COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

9. BUDGETARY NONCOMPLIANCE

The Village had the following citations for budgetary noncompliance:

- Contrary to **Ohio Rev. Code Section 5705.41(D)(1)**, the Village did not obtain prior certification for expenditures.
- Contrary to **Ohio Rev. Code Section 5705.39**, the Village had appropriations which exceeded estimated resources.
- Contrary to **Ohio Rev. Code Section 5705.41(B)**, the Village had expenditures which exceeded appropriations at the legal level of control.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Philo
Muskingum County
316 Main Street
Philo, Ohio 43771

To Village Council:

We have audited the accompanying financial statements of the Village of Philo, Muskingum County, Ohio (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 1, 2007, wherein we noted the Village followed the cash basis of accounting, a comprehensive accounting basis other 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 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 the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiencies described in the accompanying schedule of findings, items 2006-VPMC-003, 2006-VPMC-004, 2006-VPMC-005, 2006-VPMC-007, 2006-VPMC-008 and 2006-VPMC-009, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

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, grant agreements and other matters noncompliance with which could have a direct and material affect 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 an opinion. The results of our tests disclosed several instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2006-VPMC-001 through 2006-VPMC-006.

We also noted certain matters that we have reported to management of the Village in a separate letter dated June 1, 2007.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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

Charles E. Harris and Associates, Inc.

June 1, 2007

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

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

FINDING NUMBER 2006-VPMC-001

Noncompliance Citation

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

The Village's legal level of control is the at the object level. We noted the following funds had expenditures plus encumbrances that exceeded appropriations at the stated levels at December 31, 2006:

Fund	Level	Approved Appropriations	Budgetary Expenditures	Variance
Special Revenue Fund:				
Street Construction, Maintenance & Repair fund	Fund	\$ 26,000	\$ 32,301	\$(6,301)
Enterprise Fund:				
Water Construction Fund	Contract Services	7,000	13,659	(6,659)

The following funds had expenditures plus encumbrances that exceeded appropriations at the legal level of control at December 31, 2005:

Fund	Level	Approved Appropriations	Budgetary Expenditures	Variance
General Fund	Fund	\$ 181,500	\$ 187,797	\$(6,297)
Special Revenue Fund:				
Street Construction, Maintenance & Repair fund	Fund	\$ 22,000	\$ 24,453	(2,453)
Enterprise Fund:				
Water Construction Fund	Contract Services	8,000	8,531	(531)

The Clerk-Treasurer should deny payment requests exceeding appropriations, as required by Ohio Rev. Code Section 5705.41(B). We recommend Village Council and the Clerk-Treasurer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations.

The Clerk-Treasurer will compare expenditures to appropriations monthly and take the necessary steps to prevent expenditures from exceeding appropriations.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2006 AND 2005**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE GAGAS – (Continued)**

FINDING NUMBER 2006-VPMC-002

Noncompliance Citation

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund shall not exceed total estimated fund resources from each fund as certified by the county budget commission. This section also provides that no appropriation measure shall become effective until the Village obtains the County Auditor’s certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

During the year-end December 31, 2006, total appropriations exceeded total estimated resources at year-end as follows:

Fund	Estimated Resources	Appropriations	Variance
Special Revenue fund:			
Street Construction & Maintenance Fund	\$ 23,792	\$ 26,000	\$ (2,208)

During the year-end December 31, 2005, total appropriations exceeded total estimated resources at year-end as follows:

Fund	Estimated Resources	Appropriations	Variance
Special Revenue fund:			
Street Construction & Maintenance Fund	\$ 19,311	\$ 22,000	\$ (2,689)

Village Council and management should monitor appropriations versus estimated resources and modify as necessary to help avoid overspending.

The Clerk-Treasurer will monitor appropriations versus estimated resources monthly and amend as necessary to comply with the Ohio Revised Code.

FINDING NUMBER 2006-VPMC-003

Noncompliance and Material Weakness

Ohio Admin. Code § 117-2-02(A) requires all public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2006 AND 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE GAGAS – (Continued)

**FINDING NUMBER 2006-VPMC-003
(Continued)**

The Village's accounting system and accounting records did not enable the Village to document compliance with finance-related legal requirements, including various sections of Ohio Revised Code Chapter 5705 as follows:

Appropriations were not posted to an appropriation ledger. As a result, there was no method established whereby the fiscal officer could determine if unencumbered appropriations were available for expenditure. Village management could not monitor the types of expenditures being made and the year-to-date expenditures made for any particular expenditure function.

Estimated receipts were not posted to the receipts ledger. As a result, there was no method established whereby Village management could compare budgeted receipts to actual receipts and file amended certificates of estimated resources when needed.

We recommend the Village Clerk-Treasurer post appropriation amounts to the appropriations ledger, once appropriations are adopted by Village Council and certified by the Budget Commission. This would enable the Clerk-Treasurer to utilize the encumbrance method of accounting and document compliance with finance-related legal requirements. Comparisons of budgeted (appropriated) expenditures to actual expenditures should then be presented to Council as a tool to manage the Village. Guidance for maintaining the appropriations ledger is now included in Ohio Admin. Code Section 117-2-02(D)(3).

We recommend budgeted and actual receipts be posted to the receipts ledger as recommended in Ohio Admin. Code Section 117-2-02(D) (2), to provide useful monthly budget vs. actual comparisons to assist management in monitoring Village operations. This would enable the Clerk-Treasurer to document compliance with finance-related legal requirements concerning the filing of estimated resources and any amendments thereto.

The Clerk-Treasurer will incorporate appropriations and budgeted receipts in his accounting records.

FINDING NUMBER 2006-VPMC-004

Noncompliance Citation and Material Weakness

Ohio Revised Code Section 5705.41 (D)(1), requires, in part, that no subdivision or taxing unit shall make any contract or order any expenditure unless there is attached thereto a certificate of the fiscal officer of the subdivision certifying that the amount required to meet the obligation has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2006 AND 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE GAGAS – (Continued)

**FINDING NUMBER 2006-VPMC-004
(Continued)**

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

“Then and Now” Certificate – If the fiscal officer can certify that both at the time the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that 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 Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditure by the Village.

Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

All 68 transactions we tested for 2006 and 2005 did not include prior certification of the availability of funds by the Clerk nor was there any evidence of a “Then and Now” certificate being used by Clerk. Failure to properly certify the availability of funds can result in overspending funds and negative cash balances.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2006 AND 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE GAGAS – (Continued)

**FINDING NUMBER 2006-VPMC-004
(Continued)**

We recommend the Village’s management implement procedures to gain fiscal control over expenditures. Purchase orders containing the required certification should be utilized to certify the 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.

The Clerk-Treasurer will review Ohio Revised Code requirements and attempt to comply.

FINDING NUMBER 2006-VPMC-005

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 149.39 requires the creation of a records commission in each municipal corporation. The commission shall be composed of the chief executive or his appointed representative, as chairman, and the chief fiscal officer, the chief legal officer, and a citizen appointed by the chief executive. The commission shall appoint a secretary and meet at least once every six months, and upon call of chairman.

The functions of the commission shall be to provide rules for retention and disposal of records and to review applications for one-time records disposal and schedules of records retention and disposition submitted by municipal offices. Records may be disposed of by the commission pursuant to the procedure outlined in this section.

Furthermore, Ohio Rev. Code § 149.351(A) states in part that “all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code”.

Our review of the Village’s prior audit report indicated that numerous ordinances and resolutions had been destroyed due to a waterline break in 1998. The Village’s Clerk-Treasurer confirmed that ordinances and resolutions had been destroyed. It was recommended by the prior audit that a records commission be established and that all relevant ordinances and resolutions be replaced with new legislation. Council passed new resolutions authorizing pay rates for 2006 and 2005. We found that a municipal records commission had been established did not meet during the audit period.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2006 AND 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE GAGAS – (Continued)

**FINDING NUMBER 2006-VPMC-005
(Continued)**

We recommend Village Council, the Clerk-Treasurer, and the Mayor review the existing Village records to determine those records destroyed or damaged by water. As certain Village records are considered permanent records to be maintained by the Village indefinitely, including ordinances and resolutions, Village officials should consult with the Village’s legal counsel to determine the appropriate steps to address the apparent lack of records. Perhaps certain records, although damaged, could be transcribed into more legible form and kept on file for future reference. Certain records may not be recoverable and/or legible, but may still be of continuing significance, such as ordinances and resolutions that authorize water rates, etc. In those instances, Council should adopt new legislation, as it did for pay rates, to replace the destroyed legislation, as Village legal counsel advises.

The Village is passing ordinances as needed.

FINDING NUMBER 2006-VPMC-006

Noncompliance Citation

Ohio Rev. Code § 2921.42(A)(1) states that no public official shall knowingly authorize, or employ the authority or influence of his office to secure authorization of any public contract in which he, a member of his family, or any of his business associates has an interest.

Furthermore, Ohio Rev. Code § 2921.42(G)(1)(a) indicates that a public contract means the purchase or acquisition, or a contract for the purchase or acquisition, of property or services by or for the use of the state, any of its political subdivisions, or any agency or instrumentality of either, including the employment of an individual by the state, any of its political subdivisions, or any agency or instrumentality of either.

Ohio Rev. Code Section 102.03 (D) provides that no public official or employee shall use or authorize the use of the authority or influence of his office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person’s duties.

1998 Ohio Ethics Commission Opinion No. 98-004 states, in part, that Division (A)(1) of Section 2921.42 of the Revised Code, and Division (D) of Section 102.03 of the Revised Code, prohibit a village clerk-treasurer from authorizing, or employing the authority or influence of her office to secure the authorization of, her husband’s contract of employment, and from discussing, deliberating, or otherwise participating in any part of the village’s decision-making process authorizing or approving her husband’s contract of employment or the continuation, implementation, or terms and conditions of her husband’s contract of employment.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2006 AND 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE GAGAS – (Continued)

**FINDING NUMBER 2006-VPMC-006
(Continued)**

On November 11, 2001, Village Council authorized the hiring of Becky Hutcheson as assistant to the Clerk-Treasurer, Samuel Hutcheson. Becky Hutcheson is the wife of Samuel Hutcheson. Village Council re-affirmed the hiring of Becky Hutcheson with passage of Ordinance 2003-6A which was introduced on December 16, 2003.

This matter was referred to the Ohio Ethics Commission as a possible violation of Ohio Rev. Code 2921.42(A)(1) and 102.03(D) as a result of the prior audit report dated November 12, 2003. This employment situation has not changed.

The Village Solicitor believes the Village has followed the Ohio Revised Code in this matter.

FINDING NUMBER 2006-VPMC-007

Material Weakness

Management has a key role to play in ensuring the Village establish and maintain effective internal controls. Accordingly, Village management must establish procedures to ensure and document that the Village is complying with applicable legal requirements.

The results of our audit indicated a weakness in management's role to establish and maintain effective internal controls and to ensure and document the Village is complying with legal requirements as evidenced by the material noncompliance citations and material weaknesses included in our report. The small size of the Village's staff did not allow for an adequate segregation of duties as the Village Clerk-Treasurer performed all accounting functions, including receipting, depositing, disbursing, and reconciling Village monies.

Monitoring controls could be implemented where Village Council could function as a finance and audit committee to monitor financial activity closely and to follow up on any audit findings.

We recommend Village Council become more actively involved in monitoring the financial activity of the Village. Village Council should assure that the Village Clerk-Treasurer performs a monthly bank reconciliation that includes total fund balances being reconciled to total deposits and investments, detailing outstanding checks and any other reconciling items. Village Council should then review the validity of the computations and attest to the reconciliation's accuracy. Village Council should also assure the Clerk-Treasurer maintains and presents to Council monthly the following records; receipts ledger, appropriations ledger, cash journal, budget vs. actual reports for receipts and disbursements, payroll journal and check register. Supervisory reviews should be performed by members of Village Council and evidenced by the initials of each member performing the review and the date the review was performed.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2006 AND 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE GAGAS – (Continued)

**FINDING NUMBER 2006-VPMC-007
(Continued)**

The presentation of these records and reviews by Village Council should be noted in Council’s minutes. Council should make appropriate inquiries to help determine the continued integrity of financial information such as:

- Are current receipts sufficient to cover expenditures?
- Are actual receipts and expenditures in line with the budget?
- Are receipts and expenditures in line with prior years?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted for?
- Are anticipated receipts being received in a timely manner?

The information obtained as a result of such reviews and inquiries will provide important data necessary to properly manage the Village. The Village Clerk-Treasurer, Council and Mayor should become familiar with the Ohio Compliance Supplement, which has been provided to the Village, and use this as a tool to assist them in complying with applicable Ohio laws and regulations.

The Clerk-Treasurer will monitor budgetary items monthly and will also incorporate appropriations and budgeted receipts in his accounting records.

FINDING NUMBER 2006-VPMC-008

Material Weakness

The Water Clerk maintained a cash journal for the recording of quarterly water payments received and forwarded water payments to the Village Clerk-Treasurer on a monthly basis. However, the Clerk-Treasurer did not issue pay-in orders each month to the Water Clerk. In addition, the Clerk-Treasurer did not issue a pay-in order to the individual forwarding monies from bulk water sales to the Clerk-Treasurer.

This weakness resulted in a lack of accountability between the water department collections and the amounts entered in the Clerk-Treasurer’s cashbook.

We recommend the Clerk-Treasurer issue a pay-in order to the Water Clerk when she forwards water payments to the Clerk-Treasurer. We also recommend a pay-in order be issued to the individual forwarding bulk water sales monies to the Clerk-Treasurer. The individual turning in bulk water sales monies should also record the meter reading at that time and forward it to the Clerk-Treasurer. The Clerk-Treasurer should review the meter reading to bulk water sales monies turned in for reasonableness.

The Clerk-Treasurer will consider using pay-ins for all receipts.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2006 AND 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE GAGAS – (Continued)

FINDING NUMBER 2006-VPMC-009

Material Weakness

Pay-in-orders were not issued by the Clerk-Treasurer for all amounts received by the Village. In addition, we noted multiple instances in which the Clerk-Treasurer either did not post receipts to the accounting records, or did not deposit receipts into the Village depository in a timely manner after they were received.

As a result, source documentation was not available in many instances to indicate to which account code revenue should be posted. The lack of posting and depositing receipts on a timely basis could also allow errors or fraud to occur and remain undetected by management.

We recommend the Clerk-Treasurer issue a pay-in order when any money is received on behalf of the Village. The pay-in-order should be issued in duplicate, with the original given to the person making payment after all information has been entered in the spaces provided. The duplicate should remain in the binding and be used as a posting source to the cash journal. Monies should be deposited as soon as possible and the Clerk-Treasurer should properly safeguard monies until the time the deposit is made.

The Clerk-Treasurer will consider using pay-ins for all receipts. The water department receipts are deposited by the water department Clerk.

VILLAGE OF PHILO
MUSKINGUM COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2004-VPMC-001	Contrary to Ohio Rev. Code Section 5705.41 (B) the Village had disbursements exceed appropriations	NO	This is repeated as finding # 2006-VPMC-001.
2004-VPMC-002	Contrary to Ohio Rev. Code Section 5705.39 the Village had appropriations in excess of estimated resources.	NO	This is repeated as finding # 2006-VPMC-002.
2004-VPMC-003	Contrary to Ohio Admin. Code 117-2-02 (A), the Village did not maintain an effective accounting system.	NO	This is repeated as finding # 2006-VPMC-003.
2004-VPMC-004	Contrary to Ohio Rev. Code Section 5705.41 (D), the Village did not certify any disbursements.	NO	This is repeated as finding # 2006-VPMC-004.
2004-VPMC-005	Contrary to Ohio Rev. Code Section 149.39, the Village did not establish a records commission.	NO	This is repeated as finding # 2006-VPMC-005.
2004-VPMC-006	Contrary to Ohio Rev. Code 2921.42(A)(1), the Village hired the wife of the Clerk-Treasurer as the Clerk-Treasurer's Assistant.	NO	This is repeated as finding # 2006-VPMC-006.
2004-VPMC-007	Contrary to Ohio Rev. Code Section 731.13, the Village did not pass an ordinance authorizing compensation rates for Village employees and officials.	YES	

VILLAGE OF PHILO
MUSKINGUM COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2004-VPMC-008	The Village did not adequately monitor internal accounting controls.	NO	This is repeated as finding # 2006-VPMC-007.
2004-VPMC-009	The Village did not have a formal policy covering the use of credit cards.	NO	The is included in the management letter.
2004-VPMC-010	The Village did not have an adequate system to record Village payroll.	YES	
2004-VPMC-011	The Village Clerk-Treasurer did not issue Pay-Ins to the Water Clerk.	NO	This is repeated as finding # 2006-VPMC-008.
2004-VPMC-012	The Village Clerk-Treasurer did not issue Pay-Ins for any receipts.	NO	This is repeated as finding # 2006-VPMC-009.



Mary Taylor, CPA
Auditor of State

VILLAGE OF PHILO

MUSKINGUM 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
SEPTEMBER 6, 2007