



# Balestra, Harr & Scherer, CPAs, Inc.

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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## VILLAGE OF HANGING ROCK LAWRENCE COUNTY

### REGULAR AUDIT

For the Years Ended December 31, 2012 and 2011  
Fiscal Years Audited Under GAGAS: 2012 and 2011





# Dave Yost • Auditor of State

Village Council  
Village of Hanging Rock  
100 Scioto Avenue  
Hanging Rock, Ohio 45638

We have reviewed the *Independent Auditor's Report* of the Village of Hanging Rock, Lawrence County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2011 through December 31, 2012. 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.

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 Hanging Rock is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

August 29, 2013

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**VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY, OHIO**

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For the Years Ended December 31, 2012 and 2011

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## Independent Auditor's Report

Village of Hanging Rock  
Lawrence County  
100 Scioto Avenue  
Hanging Rock, Ohio 45638

To the Village Council:

### Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Village of Hanging Rock, Lawrence County, (the Village), as of and for the years ended December 31, 2012 and 2011.

### Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012 and 2011, or changes in financial position thereof for the years then ended.

### **Opinion on Regulatory Basis of Accounting**

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Village of Hanging Rock, Lawrence County, as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

### **Emphasis of Matter**

As described in Note 9 to the financial statements, during 2011, the Village adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2013, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standard* in considering the Village's internal control over financial reporting and compliance.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
May 29, 2013



**VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Local Taxes	\$ 3,800	\$ -	\$ 3,800
Intergovernmental	12,275	36,408	48,683
Fines, Licenses, and Permits	268,778	18,964	287,742
Earnings on Investments	55	-	55
Miscellaneous	5,050	510	5,560
	<u>289,958</u>	<u>55,882</u>	<u>345,840</u>
Total Cash Receipts			
<b>Cash Disbursements:</b>			
Current:			
Security of Persons & Property	196,700	-	196,700
Public Works	-	-	-
Leisure Time Activities	2,082	-	2,082
Transportation	-	16,743	16,743
General Government	91,691	11,828	103,519
Capital Outlay	4,173	7,540	11,713
Debt Service:			
Redemption of Principal	10,988	-	10,988
Interest and Fiscal Charges	415	-	415
	<u>306,049</u>	<u>36,111</u>	<u>342,160</u>
Total Cash Disbursements			
Total Cash Receipts Over/(Under) Cash Disbursements	(16,091)	19,771	3,680
<b>Other Financing Receipts and (Disbursements):</b>			
Transfers In	19,947	3,135	23,082
Transfers Out	<u>-</u>	<u>(23,082)</u>	<u>(23,082)</u>
	<u>19,947</u>	<u>(19,947)</u>	<u>-</u>
Total Other Financing Receipts/(Disbursements)			
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	3,856	(176)	3,680
Fund Cash Balances, January 1	<u>13,408</u>	<u>5,563</u>	<u>18,971</u>
Fund Cash Balances, December 31			
Restricted	-	5,387	5,387
Unassigned	17,264	-	17,264
<b>Fund Cash Balances, December 31</b>	<u>\$ 17,264</u>	<u>\$ 5,387</u>	<u>\$ 22,651</u>

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

**VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BASIS FUND BALANCES  
AGENCY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Agency</u>
<b>Non-Operating Cash Receipts/Disbursements</b>	
Other Non-operating Receipts	365,061
Other Non-operating Disbursements	<u>(329,332)</u>
Net Cash Receipts Over/(Under) Cash Disbursements	<u>35,729</u>
Fund Cash Balances, January 1	<u>15,712</u>
<b>Fund Cash Balances, December 31</b>	<u><u>\$ 51,441</u></u>

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

**VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Local Taxes	\$ 4,175	\$ -	\$ 4,175
Intergovernmental	14,711	11,729	26,440
Fines, Licenses, and Permits	166,754	13,758	180,512
Earnings on Investments	93	-	93
Miscellaneous	2,120	-	2,120
	<u>187,853</u>	<u>25,487</u>	<u>213,340</u>
Total Cash Receipts			
<b>Cash Disbursements:</b>			
Current:			
Security of Persons & Property	141,806	-	141,806
Leisure Time Activities	3,540	-	3,540
Transportation	43,505	11,586	55,091
General Government	85,588	29,772	115,360
Debt Service:			
Redemption of Principal	8,772	-	8,772
Interest and Fiscal Charges	865	-	865
	<u>284,076</u>	<u>41,358</u>	<u>325,434</u>
Total Cash Disbursements			
Total Cash Receipts Over/(Under) Cash Disbursements	(96,223)	(15,871)	(112,094)
<b>Other Financing Receipts and (Disbursements):</b>			
Sale of Fixed Assets	5,500	-	5,500
	<u>5,500</u>	<u>-</u>	<u>5,500</u>
Total Other Financing Receipts/(Disbursements)			
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(90,723)	(15,871)	(106,594)
Fund Cash Balances, January 1	<u>104,131</u>	<u>21,434</u>	<u>125,565</u>
<b>Fund Cash Balances, December 31</b>			
Restricted	-	5,563	5,563
Unassigned	13,408	-	13,408
<b>Fund Cash Balances, December 31</b>	<u>\$ 13,408</u>	<u>\$ 5,563</u>	<u>\$ 18,971</u>

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

**VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BASIS FUND BALANCES  
AGENCY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Agency</u>
<b>Non-Operating Cash Receipts/Disbursements</b>	
Other Non-operating Receipts	214,384
Other Non-operating Disbursements	<u>(240,747)</u>
Net Cash Receipts Over/(Under) Cash Disbursements	<u>(26,363)</u>
Fund cash balances, January 1, as restated	<u>42,075</u>
<b>Fund Cash Balances, December 31</b>	<u><u>\$ 15,712</u></u>

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

**VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Hanging Rock, Lawrence County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government, maintenance of roads, and police services.

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

**B. Accounting Basis**

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Cash Deposits**

The Village values cash at cost.

**D. Fund Accounting**

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

**1. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**2. Special Revenue Funds**

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

State Highway Fund - This fund receives gasoline tax and motor vehicle license tax money for constructing, maintaining, and repairing village highways.

Federal Emergency Management Agency Grant Fund - This fund receives grant monies to assist in the restoration of North 2nd Street. The street was damaged by floodwaters in 2011.

**VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**3. Fiduciary Funds**

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for the activities of the Village's Mayor's Court.

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**2. Estimated Resources**

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

**3. Encumbrances**

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

A summary of 2012 and 2011 budgetary activity appears in Note 3.

**F. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Nonspendable**

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**2. Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**3. Committed**

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**G. Property, Plant, and Equipment**

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. Equity in Pooled Deposits**

The Village maintains a deposit pool all funds use. The Ohio Revised Code prescribes allowable deposits. The carrying amount of at December 31 was as follows:

	<u>2012</u>	<u>2011</u>
Demand deposits	<u>\$74,092</u>	<u>\$34,683</u>
Total deposits	<u><u>\$74,092</u></u>	<u><u>\$34,683</u></u>

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

**VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$309,905	\$309,905
Special Revenue	0	59,017	59,017
Total	\$0	\$368,922	\$368,922

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$290,470	\$306,049	(\$15,579)
Special Revenue	59,810	59,193	617
Total	\$350,280	\$365,242	(\$14,962)

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$193,032	\$193,353	\$321
Special Revenue	25,776	25,487	(289)
Total	\$218,808	\$218,840	\$32

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$296,976	\$284,076	\$12,900
Special Revenue	47,209	41,358	5,851
Total	\$344,185	\$325,434	\$18,751

Contrary to Ohio law, at December 31, 2012 and 2011, the Village had multiple instances of obligating funds prior to encumbrance.

**4. Property Tax**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.



**VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**5. Debt**

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
Police Truck Loan	\$2,009	5.46%
Total	\$2,009	

The Police Truck Note was issued in 2010 to finance the purchase of a Police Truck. The loan is collateralized by the truck. The loan was issued on October 26, 2010 for a three-year period. A down payment of \$5,000 accompanied the loan upon purchase of the truck. The Village has been making payments in excess of the amounts listed on the amortization schedule in order to retire principal sooner.

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

	Police Truck Loan
Year ending December 31: 2013	\$2,027
Total	\$2,027

**6. Retirement Systems**

The Village's certified Fire Fighters and full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OP&F participants contributed 10% of their wages. For 2012 and 2011, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2012 and 2011, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

**7. Risk Management**

**Commercial Insurance**

The Village has obtained commercial insurance for the following risks:

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

**8. Contingent Liabilities**

The Village was a defendant in an ongoing lawsuit at December 31, 2012. This case was settled in January of 2013 with no payment made by the Village, including attorneys' fees, which were paid by the Village's insurance plan.

**VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**9. Fund Balances**

The Village implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on the fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Special Revenue Funds	Total Governmental Funds
December 31, 2011			
<b>Restricted for</b>			
Street Construction & Maintenance	\$ -	\$3,581	\$3,581
Highways	-	139	139
Mayor's Court Computers	-	1,843	1,843
<b>Total Restricted</b>	<u>-</u>	<u>5,563</u>	<u>5,563</u>
<b>Unassigned</b>	13,408	-	13,408
<b>Total Fund Balances</b>	<u>\$13,408</u>	<u>\$5,563</u>	<u>\$18,971</u>
December 31, 2012			
<b>Restricted for</b>			
Street Construction & Maintenance	\$ -	\$207	\$207
Highways	-	307	307
Mayor's Court Computers	-	4,873	4,873
<b>Total Restricted</b>	<u>-</u>	<u>5,387</u>	<u>5,387</u>
<b>Unassigned</b>	17,264	-	17,264
<b>Total Fund Balances</b>	<u>\$17,264</u>	<u>\$5,387</u>	<u>\$22,651</u>

**10. Restatement of Prior Year's Fund Balance**

The Village's Agency Fund's fund balance was determined to be incorrectly stated at the beginning of 2011. A proof of cash test was performed and the result required a \$5,314 decrease in the fund balance of the Village's Agency Fund.

	<u>Agency Fund</u>
Fund Balances, December 31, 2010	\$ 47,389
Adjustment to Fund Balance	<u>(5,314)</u>
Restated Fund Balance, December 31, 2010	<u>\$ 42,075</u>

**VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**11. Transfers**

The Village received FEMA grant monies in 2012 for repair of North 2<sup>nd</sup> Street due to flooding that occurred in 2011. An emergency was declared shortly after the flood and the Village used monies from the General Fund and the Street Maintenance and Repair Fund to cover the costs of the repairs. The following transfers were performed, in accordance with Auditor of State bulletin 98-013, to properly account for the receipt of the FEMA grant monies:

	Transfers In	Transfers Out
General Fund	\$ 19,947	\$ -
Special Revenue Funds:		
Street Maintenance and Repair	3,135	-
FEMA Grant	-	(23,082)
Total Transfers	\$ 23,082	\$ (23,082)



# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

[www.bhscpas.com](http://www.bhscpas.com)

## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Village of Hanging Rock  
Lawrence County  
100 Scioto Avenue  
Hanging Rock, Ohio 45638

To the Village Council:

We have audited, in accordance with the auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Village of Hanging Rock, Lawrence County, (the Village) as of and for the years ended December 31, 2012 and 2011 and the related notes to the financial statements, and have issued our report thereon dated May 29, 2013, wherein we noted the Village followed accounting and financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, described in Note 1 and implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

### Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider finding 2012-001 described in the accompanying schedule of findings to be a material weakness.

### 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, opining 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 or other matters we must report under Government Auditing Standards which is described in the accompanying schedule of findings as item 2012-002.

**Entity's Response to Findings**

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.

**Purpose of this Report**

This report only describes the scope of our internal control testing and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
May 29, 2013

VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY

DECEMBER 31, 2012 AND 2011  
SCHEDULE OF FINDINGS

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

FINDING NUMBER 2012-001

**Material Weakness**

Accurate financial reporting is an important part of the Village's overall purpose. Financial reporting requires internal controls in place to help ensure accuracy of reporting.

The Village had numerous adjustments and reclassifications due to errors noted in the receipting and disbursing process. The following areas had audit adjustments and reclassifications made to the Village's financial statements:

- Other Financing Sources
- Other Financing Uses
- General Government Expense
- Transportation Expense
- Capital Outlay
- Special Items
- Refund of Prior Year Expenditures

The audited financial statements and Village records have been adjusted for the misstatements above.

The aforementioned errors were the result of a lack of internal controls of financial reporting. This lack of internal control over financial reporting exists primarily due to the recent implementation of accounting software at the Village.

The presentation of materially incorrect financial statements is the responsibility of management. Lack of a properly presented financial statements review process could inhibit its financial accountability to both the public and the Council, which they may use to facilitate Village decisions.

We recommend the Village implement internal control procedures that enable management to identify, prevent, detect and correct potential misstatements in the financial statements.

**Client Response:** The Village acknowledges the issue and is working toward correcting the errors.

VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY

DECEMBER 31, 2012 AND 2011  
SCHEDULE OF FINDINGS  
(Continued)

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

FINDING NUMBER 2012-002

**Material Noncompliance**

Ohio Rev. Code, Section 5705.41 (D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

This section also provides two “exceptions” to the above requirements:

A. Then and Now Certificate – If the fiscal officer can certify that both at the time That 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 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 maybe 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 expenditures by the Village.

B. 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 on particular line item appropriation.

C. 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 reasonable 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.

The availability of funds was not certified for a portion of the expenditures tested for 2011 and 2012. Failure to properly certify funds could result in overspending and negative fund balances.

The Village should certify purchases to which 5705.41(D) applies. The most convenient method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Client Response:** The Village acknowledges the issue and is working toward correcting this problem.

**VILLAGE OF HANGING ROCK  
LAWRENCE COUNTY  
DECEMBER 31, 2012 AND 2011**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2010-001	ORC Section 5705.39 – Appropriations limited by Estimated Resources	No	Reissued as a management letter noncompliance citation
2010-002	ORC Section 733.28 – Village clerk should keep the books of the Village	Yes	
2010-003	Material Weakness – Adjustments and Reclassifications to the Financial Statements	No	Reissued as material weakness 2012-001
2010-004	Mayor’s Court Reconciliations	Yes	





# Dave Yost • Auditor of State

**VILLAGE OF HANGING ROCK**

**LAWRENCE 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 10, 2013**