

VILLAGE OF HOLMESVILLE

HOLMES COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2012 and 2011





Dave Yost • Auditor of State

Village Council
Village of Holmesville
P.O. Box 113
Holmesville, Ohio 44633

We have reviewed the *Report of Independent Accountants* of the Village of Holmesville, Holmes County, prepared by Charles E. Harris & Associates, 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.

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 Holmesville is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

May 28, 2013

VILLAGE OF HOLMESVILLE
HOLMES COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2012 and 2011

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Holmesville
Holmes County
P.O. Box 113
Holmesville, OH 44633

To Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Holmesville, Holmes 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 fair 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 or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Holmesville, Holmes 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 discussed in Note 9 to the financial statements, during 2011 the Village of Holmesville, Holmes County, 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 March 10, 2013, 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. That report describes 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 Standards* in considering the Village's internal control over financial reporting and compliance.

Charles E. Harris, Associate

Charles E. Harris & Associates, Inc.
March 10, 2013

VILLAGE OF HOLMESVILLE
HOLMES COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2012

	Governmental Fund Types		(Memorandum Only) Total
	General	Special Revenue	
RECEIPTS:			
Property and Other Local Taxes	\$ 19,925	\$ -	\$ 19,925
Intergovernmental	21,551	22,373	43,924
Special Assessments	-	1,300	1,300
Fines, Licenses and Permits	30	-	30
Earnings on Investments	76	-	76
Miscellaneous	1,578	-	1,578
Total Cash Receipts	43,160	23,673	66,833
DISBURSEMENTS:			
Security of Persons and Property	7,622	5,375	12,997
Public Health Services	1,355	-	1,355
Community Environment	40	-	40
Transportation	-	43,672	43,672
General Government	27,251	-	27,251
Total Cash Disbursements	36,268	49,047	85,315
Cash Receipts Over/(Under) Cash Disbursements	6,892	(25,374)	(18,482)
Other Financing Sources (Uses):			
Transfers-In	-	12,878	12,878
Transfers-Out	(12,878)	-	(12,878)
Advances-In	366	366	732
Advances-Out	(366)	(366)	(732)
Total Other Financing Sources (Uses)	(12,878)	12,878	-
Excess of Cash Receipts and Other Financing Sources Over (Under) Cash Disbursements and Other Financing Uses	(5,986)	(12,496)	(18,482)
Fund Cash Balance, January 1, 2012	22,905	69,731	92,636
Fund Cash Balances, December 31, 2012			
Restricted	-	63,775	63,775
Unassigned	10,379	-	10,379
Fund Cash Balance, December 31, 2012	\$ 16,919	\$ 57,235	\$ 74,154

See Accompanying Notes to the Financial Statements

VILLAGE OF HOLMESVILLE
HOLMES COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES
For the Year Ended December 31, 2012

	Proprietary Fund Type
	Enterprise
OPERATING CASH RECEIPTS:	
Charges for Services	\$ 188,061
Miscellaneous	25
	188,086
Total Operating Cash Receipts	188,086
 OPERATING CASH DISBURSEMENTS	
Personal Services	7,409
Employee Fringe Benefits	1,342
Contractual Services	70,943
Supplies and Materials	9,218
	88,912
Total Operating Cash Disbursements	88,912
Operating Income (Loss)	99,174
 NON OPERATING CASH RECEIPTS/ (DISBURSEMENTS)	
Earnings on Investments	1,176
Debt Service:	
Retirement of Principal	(29,784)
Interest and Fiscal Charges	(60,801)
	(89,409)
Total Non Operating Cash Receipts/ (Disbursements)	(89,409)
Income (Loss) Before Interfund Transfers	9,765
Transfers-In	20,000
Transfers-Out	(20,000)
	9,765
Net Income (Loss)	9,765
Fund Cash Balance, January 1, 2012	148,512
	148,512
Fund Cash Balance, December 31, 2012	\$ 158,277
	158,277

See Accompanying Notes to the Financial Statements

VILLAGE OF HOLMESVILLE
HOLMES COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2011

	Governmental Fund Types		(Memorandum Only) Total
	General	Special Revenue	
RECEIPTS:			
Property and Other Local Taxes	\$ 21,345	\$ -	\$ 21,345
Intergovernmental	26,879	20,925	47,804
Special Assessments	-	4,625	4,625
Fines, Licenses and Permits	75	-	75
Earnings on Investments	63	11	74
Miscellaneous	4,362	-	4,362
Total Cash Receipts	52,724	25,561	78,285
DISBURSEMENTS:			
Security of Persons and Property	8,631	4,880	13,511
Public Health Services	1,318	-	1,318
Leisure Time Activities	15	-	15
Community Environment	58	-	58
Transportation	-	29,725	29,725
General Government	31,021	276	31,297
Total Cash Disbursements	41,043	34,881	75,924
Cash Receipts Over/(Under) Cash Disbursements	11,681	(9,320)	2,361
Other Financing Sources (Uses):			
Transfers-In	-	10,403	10,403
Transfers-Out	(10,403)	-	(10,403)
Total Other Financing Sources (Uses)	(10,403)	10,403	-
Excess of Cash Receipts and Other Financing Sources Over (Under) Cash Disbursements and Other Financing Uses	1,278	1,083	2,361
Fund Cash Balance, January 1, 2011	21,627	68,648	90,275
Fund Cash Balances, December 31, 2011			
Restricted	-	69,731	69,731
Assigned	219	-	219
Unassigned	22,686	-	22,686
Fund Cash Balance, December 31, 2011	\$ 22,905	\$ 69,731	\$ 92,636

See Accompanying Notes to the Financial Statements

VILLAGE OF HOLMESVILLE
HOLMES COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES
For the Year Ended December 31, 2011

	Proprietary Fund Type
	Enterprise
OPERATING CASH RECEIPTS:	
Charges for Services	\$ 187,830
Miscellaneous	2,450
	190,280
Total Operating Cash Receipts	190,280
OPERATING CASH DISBURSEMENTS	
Personal Services	6,391
Employee Fringe Benefits	899
Contractual Services	70,066
Supplies and Materials	7,237
	84,593
Total Operating Cash Disbursements	84,593
Operating Income (Loss)	105,687
NON OPERATING CASH RECEIPTS/ (DISBURSEMENTS)	
Earnings on Investments	1,801
Miscellaneous	2,872
Debt Service:	
Retirement of Principal	(28,909)
Interest and Fiscal Charges	(61,715)
	(85,951)
Total Non Operating Cash Receipts/ (Disbursements)	(85,951)
Income (Loss) Before Interfund Transfers	19,736
Transfers-In	14,400
Transfers-Out	(14,400)
	19,736
Net Income (Loss)	19,736
Fund Cash Balance, January 1, 2011	128,776
	128,776
Fund Cash Balance, December 31, 2011	\$ 148,512
	148,512

See Accompanying Notes to the Financial Statements

**VILLAGE OF HOLMESVILLE
HOLMES COUNTY, OHIO
Notes to the Financial Statements
For The Years Ended 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 Holmesville, Holmes County, Ohio (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services, street repair and maintenance, and sewer services to the residents of the Village. The Village contracts with the Holmes County Sheriff's Department to provide security of persons and property. The Prairie Township Volunteer Fire Department provides fire protection services to the Village residents.

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

B. BASIS OF ACCOUNTING

These financial statements follow the 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. DEPOSITS AND INVESTMENTS

The Village's accounting basis includes investments as assets. This basis does not report disbursements for investments purchases or receipts for investments sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

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 reports all financial resources except those required to be accounted for in another fund.

VILLAGE OF HOLMESVILLE
HOLMES COUNTY, OHIO
Notes to the Financial Statements
For The Years Ended December 31, 2012 and 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

D. **FUND ACCOUNTING** - (continued)

2. **Special Revenue Funds**

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

Street Construction, Maintenance and Repair Fund – This fund receives gasoline and motor vehicle tax money for construction, maintenance and repairing of Village streets.

Street Light Levy Fund – This fund receives levy money for the operation of the Village's street lights.

3. **Enterprise Funds**

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

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

Debt Reserve Fund- This fund receives monies pursuant to existing debt covenants.

E. **BUDGETARY PROCESS**

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

1. **Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level 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. Unencumbered appropriations at year-end are carried over to the subsequent year.

2. **Estimated Resources**

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

VILLAGE OF HOLMESVILLE
HOLMES COUNTY, OHIO
Notes to the Financial Statements
For The Years Ended December 31, 2012 and 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

3. **Encumbrances**

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

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.

3. **Committed**

Council can *commit* amounts via formal action by resolution or ordinance. The Village must adhere to these commitments unless the Council amends the resolution or ordinance. 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, ordinance, or by State Statute.

VILLAGE OF HOLMESVILLE
HOLMES COUNTY, OHIO
Notes to the Financial Statements
For The Years Ended December 31, 2012 and 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

F. **FUND BALANCE** – (Continued)

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 acquisition 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 AND INVESTMENTS**

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

	<u>2012</u>	<u>2011</u>
Demand deposits	\$150,176	\$160,069
Certificates of deposit	<u>\$82,255</u>	<u>\$81,079</u>
Total	<u>\$232,431</u>	<u>\$241,148</u>

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

VILLAGE OF HOLMESVILLE
HOLMES COUNTY, OHIO
Notes to the Financial Statements
For The Years Ended December 31, 2012 and 2011

3. **BUDGETARY ACTIVITY**

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

2012 Budgeted vs. Actual Receipts

<u>Fund Type</u>	Budgeted Receipts	Actual Receipts	Variance
General	\$ 51,925	\$ 43,526	\$ (8,399)
Special Revenue	35,225	36,917	1,692
Enterprise	215,000	209,262	(5,738)

2012 Budgeted vs. Actual Budgetary Basis Disbursements

<u>Fund Type</u>	Total Appropriations	Budgetary Disbursements	Variance
General	\$ 60,219	\$ 49,512	\$ 10,707
Special Revenue	65,164	49,413	15,751
Enterprise	214,361	199,497	14,864

2011 Budgeted vs. Actual Receipts

<u>Fund Type</u>	Budgeted Receipts	Actual Receipts	Variance
General	\$ 48,905	\$ 52,724	\$ 3,819
Special Revenue	22,090	35,964	13,874
Enterprise	186,140	209,353	23,213

2011 Budgeted vs. Actual Budgetary Basis Disbursements

<u>Fund Type</u>	Total Appropriations	Budgetary Disbursements	Variance
General	\$ 53,970	\$ 51,665	\$ 2,305
Special Revenue	45,102	34,936	10,166
Enterprise	189,903	189,898	5

**VILLAGE OF HOLMESVILLE
HOLMES COUNTY, OHIO
Notes to the Financial Statements
For The Years Ended December 31, 2012 and 2011**

4. PROPERTY TAXES

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.

Public utilities are also taxed on personal and real property located within the Village.

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

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

5. DEBT

Debt outstanding at December 31, 2012 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission Loan	\$74,809	0.00%
USDA Mortgage Revenue Bonds	1,273,933	4.375-4.75%
Total	<u>\$1,348,742</u>	

The Ohio Public Works Commission (OPWC) loan relates to a sanitary sewer and wastewater treatment plant construction project. The OPWC approved \$199,190 in an interest-free loan to the Village for this project. The loan will be repaid in semi-annual installments of \$4,987, over 20 years. The loan is collateralized by sewer charges for services receipts.

The USDA Rural Development Mortgage Revenue Bonds were obtained for the purpose of paying for the costs of constructing improvements to the Village's sewer system. The issuance was approved in the amount of \$1,305,000. The bonds are to be repaid annually over 40 years with a per annum interest rate of 4.75%. The Village has established sewer rates sufficient to retire the Mortgage Revenue Bonds. In 2004, the Village obtained an additional \$70,000 for the purpose of settling a dispute with a contractor to be repaid annually over 40 years with a per annum interest rate of 4.375%.

**VILLAGE OF HOLMESVILLE
HOLMES COUNTY, OHIO
Notes to the Financial Statements
For The Years Ended December 31, 2012 and 2011**

5. DEBT – (Continued)

Amortization of the above debt is scheduled as follows:

Year ending December 31:	<u>OPWC Loan</u>
2013	\$9,974
2014	9,974
2015	9,974
2016	9,974
2017	9,974
2018-2020	<u>24,939</u>
Total	<u><u>\$74,809</u></u>

Year ending Decemebr 31:	<u>Mortgage Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$20,767	\$59,821	\$80,588
2014	21,831	58,757	80,588
2015	22,943	57,645	80,588
2016	23,903	56,685	80,588
2017	25,215	55,373	80,588
2018-2022	145,136	257,804	402,940
2023-2027	183,746	219,194	402,940
2028-2032	232,781	170,159	402,940
2033-2037	294,698	108,242	402,940
2038-2042	295,913	36,268	332,181
2043-2044	<u>7,000</u>	<u>452</u>	<u>7,452</u>
Total	<u><u>\$1,273,933</u></u>	<u><u>\$1,080,400</u></u>	<u><u>\$2,354,333</u></u>

6. RETIREMENT SYSTEM

All employees of the Village belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OPERS members contributed 10%, respectively, of their gross salaries and the Village contributed an amount equaling 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

**VILLAGE OF HOLMESVILLE
HOLMES COUNTY, OHIO
Notes to the Financial Statements
For The Years Ended December 31, 2012 and 2011**

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Commercial inland marine
- Public official's liability
- Employer's liability
- Employee benefits liability

Settled claims have not exceeded commercial coverage in the past two years. Also, there has been no significant reduction in coverage from last year.

The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The System administers and pays all claims.

8. CONTINGENT LIABILITIES/SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

9. CHANGE IN ACCOUNTING PRINCIPLE

In 2011, the Village implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 had no effect on the fund balances as previously reported.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

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

Village of Holmesville
Holmes County
P.O. Box 113
Holmesville, OH 44633

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Holmesville, Holmes 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 March 10, 2013 wherein we noted the Village followed a special purpose framework the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Village implemented Governmental Accounting Standards Board (GASB) 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 opinions on the financial statements, but not 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 a 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-Holmesville-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 matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2012-Holmesville-002.

We did note certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated March 10, 2013.

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 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.



Charles E. Harris and Associates, Inc.
March 10, 2013

**VILLAGE OF HOLMESVILLE
HOLMES COUNTY
SCHEDULE OF FINDINGS
December 31, 2012 and 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2012-Holmesville-001 – Material Weakness

The Village Officers' Handbook and the UAN accounting system provide suggested account classifications. These accounts classify receipts by fund and source (taxes or charges for services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance and with the budget and prepare annual reports in the format required by the Auditor of State.

During 2011 and 2012, the Village recorded several transactions incorrectly. The more significant adjustments are as follows:

- Recorded all homestead and rollback reimbursements as property tax receipts, rather than intergovernmental receipts
- Double-entered a receipt
- Erroneously recorded all principal and interest payments as Interest and Other Fiscal Charges
- Recorded a transfer-in as a miscellaneous receipt
- Recorded the repair of equipment as Other-Debt Service

Adjustments were made in the financial statements and the Village's records to reflect the proper presentation.

We recommend that the Village refer to the Village Officer's Handbook and/or UAN accounting system to properly classify its financial activity. We also recommend that the Village record all homestead and rollback revenue and state grants in the appropriate revenue line items.

Management Response:

Management indicated that this is how the previous Fiscal Officer had demonstrated. An amortization schedule was not available to post principal and interest properly. We will contact the appropriate agencies to obtain these schedules. All transactions have been corrected and will be corrected in the future. Finally, we will review the chart of accounts for proper posting of future transactions.

Finding Number 2012-Holmesville-002 – Non-Compliance Citation

Transfers

Ohio Rev. Code Section 5705.14, 5705.15, and 5705.16 states that no transfer can be made from one fund of a subdivision to any other fund, except money may be transferred from the general fund to any fund of the subdivision by resolution of the taxing authority or from one fund to another as is specifically authorized in Ohio Rev. Code Section 5705.14.

Transfers and must be specifically approved by a formal resolution of the taxing authority of the subdivision. The resolution must include:

- A specific statement that the transaction is either a transfer or an advance cash, and
- The specific funds providing and receiving, and the amounts of the transfer.

VILLAGE OF HOLMESVILLE
HOLMES COUNTY
SCHEDULE OF FINDINGS – (Continued)
December 31, 2012 and 2011

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS – (Continued)</p>
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Finding Number 2012-Holmesville-002 – Non-Compliance Citation - continued

In 2012, the Village transferred \$12,878 from the General Fund to various Special Revenue Funds. In 2011, the Village transferred \$10,403 from the General Fund to various Special Revenue Funds. However, these transfers were not approved by the Village Council.

We recommend the Village refer to the Ohio Revised Code Section 5705.14, 5705.15, and 5705.16 and approve all transfers by Council resolution.

Management Response:

Management will obtain Council approval for all transfers in the future.



Dave Yost • Auditor of State

VILLAGE OF HOLMESVILLE

HOLMES 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
JUNE 11, 2013**