



**Auditor of State
Betty Montgomery**

VILLAGE OF HANGING ROCK
LAWRENCE COUNTY

TABLE OF CONTENTS

| TITLE | PAGE |
|---|------|
| Cover Letter | 1 |
| Independent Accountants' Report..... | 3 |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types - For the Year Ended December 31, 2004 | 5 |
| Statement of Cash Receipts, Cash Disbursements, and Change in Fund Cash Balance – Agency Fund - For the Year Ended December 31, 2004 | 6 |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types - For the Year Ended December 31, 2003 | 7 |
| Statement of Cash Receipts, Cash Disbursements, and Change in Fund Cash Balance – Agency Fund - For the Year Ended December 31, 2003 | 8 |
| Notes to the Financial Statements | 9 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 15 |
| Schedule of Findings..... | 17 |
| Schedule of Prior Audit Findings..... | 23 |

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

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

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS 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. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Betty Montgomery
Auditor of State

September 15, 2005

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Hanging Rock, Lawrence County, Ohio (the Village), as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our 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 year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 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, 2004, or its changes in financial position for the year 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 Hanging Rock, Lawrence County, as of December 31, 2004 and 2003, 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 year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

September 15, 2005

**VILLAGE OF HANGING ROCK
LAWRENCE COUNTY**

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

| | <u>Governmental Fund Types</u> | | | Totals (Memorandum Only) |
|--|--------------------------------|-----------------------------|-------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | |
| Cash Receipts: | | | | |
| Property Tax and Other Local Taxes | \$3,308 | \$ | \$ | \$3,308 |
| Intergovernmental Receipts | 18,782 | 7,207 | | 25,989 |
| Fines, Licenses, and Permits | 201,572 | 14,809 | | 216,381 |
| Earnings on Investments | 172 | | | 172 |
| Miscellaneous | 2,364 | | | 2,364 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Cash Receipts | 226,198 | 22,016 | 0 | 248,214 |
| Cash Disbursements: | | | | |
| Current: | | | | |
| Security of Persons and Property | 167,272 | | | 167,272 |
| Transportation | | 8,150 | | 8,150 |
| General Government | 56,909 | | | 56,909 |
| Debt Service: | | | | |
| Principal Payments | | | 764 | 764 |
| Interest Payments | | | 45 | 45 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Cash Disbursements | 224,181 | 8,150 | 809 | 233,140 |
| Total Cash Receipts Over/(Under) Cash Disbursements | <hr/> | <hr/> | <hr/> | <hr/> |
| | 2,017 | 13,866 | (809) | 15,074 |
| Other Financing Receipts/(Disbursements): | | | | |
| Sale of Bonds or Notes | 18,375 | | | 18,375 |
| Sale of Fixed Assets | 200 | | | 200 |
| Transfers-In | | | 809 | 809 |
| Transfers-Out | (809) | | | (809) |
| Other Financing Uses | (121) | | | (121) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Other Financing Receipts/(Disbursements) | 17,645 | 0 | 809 | 18,454 |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | <hr/> | <hr/> | <hr/> | <hr/> |
| | 19,662 | 13,866 | 0 | 33,528 |
| Fund Cash Balances, January 1 | <hr/> | <hr/> | <hr/> | <hr/> |
| | 2,783 | 14,192 | 0 | 16,975 |
| Fund Cash Balances, December 31 | <hr/> \$22,445 <hr/> | <hr/> \$28,058 <hr/> | <hr/> \$0 <hr/> | <hr/> \$50,503 <hr/> |

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

VILLAGE OF HANGING ROCK
LAWRENCE COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

| | <u>Agency</u> |
|--|-------------------------------|
| Non-Operating Cash Receipts: | |
| Other Non-Operating Receipts | <u>\$263,169</u> |
| Total Non-Operating Cash Receipts | <u>263,169</u> |
| Non-Operating Cash Disbursements: | |
| Other Non-Operating Cash Disbursements | <u>255,758</u> |
| Total Non-Operating Cash Disbursements | <u>255,758</u> |
| Excess of Receipts Over Disbursements | 7,411 |
| Fund Cash Balance, January 1 | <u>11,900</u> |
| Fund Cash Balance, December 31 | <u><u>\$19,311</u></u> |

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

**VILLAGE OF HANGING ROCK
LAWRENCE COUNTY**

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

| | <u>Governmental Fund Types</u> | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Property Tax and Other Local Taxes | \$3,505 | \$ | \$3,505 |
| Intergovernmental Receipts | 18,174 | 5,317 | 23,491 |
| Fines, Licenses, and Permits | 133,656 | | 133,656 |
| Earnings on Investments | 65 | | 65 |
| Miscellaneous | 995 | | 995 |
| | <hr/> | <hr/> | <hr/> |
| Total Cash Receipts | 156,395 | 5,317 | 161,712 |
| | <hr/> | <hr/> | <hr/> |
| Cash Disbursements: | | | |
| Current: | | | |
| Security of Persons and Property | 120,887 | | 120,887 |
| Transportation | | 5,610 | 5,610 |
| General Government | 33,612 | | 33,612 |
| Debt Service: | | | |
| Principal Payments | 5,982 | | 5,982 |
| Interest Payments | 156 | | 156 |
| | <hr/> | <hr/> | <hr/> |
| Total Cash Disbursements | 160,637 | 5,610 | 166,247 |
| | <hr/> | <hr/> | <hr/> |
| Total Cash Receipts Over/(Under) Cash Disbursements | (4,242) | (293) | (4,535) |
| | <hr/> | <hr/> | <hr/> |
| Fund Cash Balances, January 1 | 7,025 | 14,485 | 21,510 |
| | <hr/> | <hr/> | <hr/> |
| Fund Cash Balances, December 31 | <u>\$2,783</u> | <u>\$14,192</u> | <u>\$16,975</u> |

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

VILLAGE OF HANGING ROCK
LAWRENCE COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

| | <u>Agency</u> |
|--|-------------------------------|
| Non-Operating Cash Receipts: | |
| Other Non-Operating Receipts | <u>\$168,375</u> |
| Total Non-Operating Cash Receipts | <u>168,375</u> |
| Non-Operating Cash Disbursements: | |
| Other Non-Operating Cash Disbursements | <u>163,532</u> |
| Total Non-Operating Cash Disbursements | <u>163,532</u> |
| Excess of Receipts Over Disbursements | 4,843 |
| Fund Cash Balance, January 1 | <u>7,057</u> |
| Fund Cash Balance, December 31 | <u><u>\$11,900</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, 2004 AND 2003**

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 seven-member Council governs the Village. The Village provides general governmental services, including 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. 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. This basis 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 adequately disclose material matters the Auditor of State prescribes.

C. Cash

Cash accounts are valued at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is 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.

2. Special Revenue Fund

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

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

**VILLAGE OF HANGING ROCK
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Debt Service Fund

These funds account for resources the Village accumulates to pay note debt. The Village had the following significant Debt Service Fund:

Debt Service Fund – This fund receives transfers from the General Fund to make debt payments for the police cruiser.

4. Fiduciary Funds (Agency Funds)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant Fiduciary Fund:

Agency Fund -This fund is used to account 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. 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 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 2004 and 2003 budgetary activity appears in Note 3.

**VILLAGE OF HANGING ROCK
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. 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.

G. 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 CASH

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

| | 2004 | 2003 |
|-----------------|-----------|-----------|
| Demand deposits | \$ 69,814 | \$ 28,875 |
| Total deposits | \$ 69,814 | \$ 28,875 |

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

3. BUDGETARY ACTIVITY

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

| 2004 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$225,000 | \$244,773 | \$19,773 |
| Special Revenue | 7,700 | 22,016 | 14,316 |
| Debt Service | 23,375 | 809 | (22,566) |
| Total | \$256,075 | \$267,598 | \$11,523 |

**VILLAGE OF HANGING ROCK
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

| 2004 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$189,683 | \$225,111 | (\$35,428) |
| Special Revenue | 18,500 | 8,150 | 10,350 |
| Debt Service | 0 | 809 | (809) |
| Total | \$208,183 | \$234,070 | (\$25,887) |

| 2003 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$116,300 | \$156,395 | \$40,095 |
| Special Revenue | 6,000 | 5,317 | (683) |
| Total | \$122,300 | \$161,712 | \$39,412 |

| 2003 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$118,100 | \$160,637 | (\$42,537) |
| Special Revenue | 18,500 | 5,610 | 12,890 |
| Total | \$136,600 | \$166,247 | (\$29,647) |

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$35,428 and in the Debt Service Fund by \$809 for the year ended December 31, 2004 and in the General Fund by \$42,537 for the year ended December 31, 2003. Also, contrary to Ohio law, the Village did not encumber all funds prior to incurring the obligation.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment 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.

**VILLAGE OF HANGING ROCK
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

4. PROPERTY TAX (Continued)

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

5. DEBT

Debt outstanding at December 31, 2004 was as follows:

| | Principal | Interest Rate |
|-------------------------|-----------|---------------|
| General Obligation Note | \$17,786 | 4.49% |
| Total | \$17,786 | |

The Desco Federal Credit Union note relates to the purchase of a new police cruiser, purchased in 2004. The loan will be repaid in monthly installments of \$809, including interest, for the next 24 months; however, the Village is making extra payments to pay off the note in 2005. The note is collateralized by the police cruiser.

Amortization of the above debt, including interest, follows:

| | Desco Federal Credit Union |
|--------------------------|----------------------------------|
| Year ending December 31: | |
| 2005 | \$9,715 |
| 2006 | 8,905 |
| Total | \$18,620 |

6. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time 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 the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

VILLAGE OF HANGING ROCK
LAWRENCE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)

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.



Auditor of State Betty Montgomery

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

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

To the Village Council:

We have audited the financial statements of the Village of Hanging Rock, Lawrence County, Ohio (the Village), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated September 15, 2005 wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2004-001 and 2004-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the Village's management dated September 15, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2004-003 through 2004-006. In a separate letter to the Village's management dated September 15, 2005, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

September 15, 2005

**VILLAGE OF HANGING ROCK
LAWRENCE COUNTY**

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

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

FINDING NUMBER 2004-001

Reportable Condition

Village policies and procedures, as documented within the minutes of the Council meetings, require the Village Clerk to submit to the Village Council for approval a listing of bills to be paid on a monthly basis. However, the Village Clerk did not always present the disbursements individually for approval. This resulted in the Village Council failing to approve fifty-four percent of the tested expenditures. This is an indication that the listings of bills are not all inclusive. Failure to obtain Village Council approval prior to payment of a bill could result in errors in payments or failure to pay.

We recommend the Village Clerk place all invoices requiring payment on a monthly listing of bills to be paid, and the Village Council review and approve these listings.

FINDING NUMBER 2004-002

Reportable Condition

The management of each local public office is responsible for the assertions underlying the information in the public office's financial statements including ensuring that recorded assets exist as of fiscal year end, recorded transactions have occurred and are not fictitious and that all account balances and transactions that should be included in the financial records are included.

The Village Mayor attempted to reconcile the Mayor's Court bank account in 2003; however, the reconciliations were not accurate. The Village Mayor did not attempt to reconcile the Mayor's Court bank account in 2004. This resulted in cumbersome reconciliations and errors in the account going undetected for an extended period of time. These errors included the following types of items:

- Interest earned on the Mayor's Court bank account was not recorded in the Mayor's Court cashbook and subsequently paid into the Village
- Returned deposited items were not deducted from the amount paid into the Village
- Refunds to defendants for overpayment of fines were not deducted from the amount paid into the Village
- Long outstanding items existed throughout the audit period
- Receipts were deposited into the Mayor's Court bank account which were not posted to the Mayor's Court cashbook

These conditions not only increase the likelihood of accounting errors, but may allow fraud to occur and not be detected. We recommend the Village Mayor or an appointed individual reconcile the Mayor's Court account on a monthly basis. We further recommend the Village Mayor follow up on and correct the long outstanding items found in the Mayor's Court account.

**VILLAGE OF HANGING ROCK
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

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

FINDING NUMBER 2004-003

Finding for Recovery – Repaid Under Audit

Ohio Rev. Code Section 2949.091(A)(1) states that the court, in which any person is convicted of or pleads guilty to any offense other than a traffic offense that is not a moving violation, shall impose the sum of fifteen dollars as costs in the case in addition to any other court costs that the court is required by law to impose upon the offender. All such moneys collected during the month shall be transmitted on or before the twentieth day of the following month by the clerk of the court to the Treasurer of State and deposited by the Treasurer of State into the General Revenue Fund.

Prior to September 26, 2003, the court costs noted above were \$11; however, they were raised to \$15 as a result of House Bill 95. The Mayor's Court was not aware the court costs had increased, so it did not raise the court fee until mid February 2004.

From September 26, 2003 to December 31, 2004, the Mayor's Court issued 512 tickets for which it only collected and paid to the Treasurer of the State of Ohio the \$11 fee. Based on the change House Bill 95 made to Ohio Revised Code Section 2949.091(A)(1), the Mayor's Court should have collected an additional \$2,048 that is due to the State of Ohio to be deposited by the Treasurer of State into the General Revenue Fund.

In accordance with the foregoing facts and pursuant to the Ohio Rev. Code Section 117.28, we hereby issue a Finding for Recovery for public monies due but not collected against Mayor Christopher R. Davidson and The Cincinnati Insurance Company, jointly and severally, in the amount of \$2,048 and in favor of the State of Ohio, General Revenue Fund.

The finding was paid by the Village of Hanging Rock from its General Fund on September 4, 2005 on check number 556 for \$2,048.

FINDING NUMBER 2004-004

Noncompliance Citation

Ohio Rev. Code Section 1905.02 states, the provisions of Chapter 1907 of the Revised Code, insofar as they are relevant, apply in proceedings in a mayor's court, if the municipal corporation in which the mayor's court is located is within the jurisdiction of a county court. The Village's Mayor's Court meets this requirement.

Ohio Rev. Code Section 1907.261(B)(1) provides that a county court may determine that, for the efficient operation of the court, additional funds are required to computerize the office of the clerk of the court and, upon determination, may include in its schedule of fees and costs under section 1907.24 of the Revised Code and additional fee not to exceed ten dollars on the filing of each cause of action or appeal, on the filing, docketing, and endorsing of each certificate of judgment, or on the docketing and indexing of each aid in execution or petition to vacate, revive, or modify a judgment that is equivalent to one described in division (A), (P), (Q), (T), or (U) of section 2303.20 of the Revised Code. Subject to divisions (B)(2) of this section, all moneys collected under division (B)(1) of this section shall be paid to the Village Clerk.

VILLAGE OF HANGING ROCK
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)

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

FINDING NUMBER 2004-004 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 1905.02 and Ohio Rev. Code Section 1907.261(B)(1)(Continued)

The Village Clerk shall place the funds from the fees in a separate fund to be disbursed, upon an order of the county court and subject to an appropriation by the board of county commissioners, in an amount no greater than the actual costs to the court of procuring and maintaining computer systems for the office of the clerk of the county court. Auditor of State Bulletin 97-019 discusses the above Ohio Revised Code Section.

The Mayor's Court started collecting computer fees on February 2, 2004. The Mayor's Court made monthly payments to the Village, and the Village recorded the computer fee receipts in the General Fund instead of the Court Computer Fund. Computer receipts collected by the Mayor's Court and not disbursed into the separate Special Revenue Court Computer Fund from February 2, 2004 through December 31, 2004 were \$14,809.

The financial statements have been adjusted to reflect this adjustment.

FINDING NUMBER 2004-005

Noncompliance Citation

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

Expenditures exceeded appropriations at the fund level as follows:

| <u>December 31, 2003:</u> | <u>Amount Exceeded:</u> | <u>Percentage Exceeded:</u> |
|---------------------------|-------------------------|-----------------------------|
| General Fund | \$42,537 | 26% |
| <u>October 31, 2004:</u> | | |
| General Fund | \$2,972 | 2% |
| <u>December 31, 2004:</u> | | |
| General Fund | \$35,428 | 16% |
| Debt Service Fund | \$809 | 100% |

**VILLAGE OF HANGING ROCK
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

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

FINDING NUMBER 2004-005 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41 (B) (Continued)

Expenditures exceeded appropriations at the legal level of control as follows:

| | | <u>Amount</u> | <u>Percentage</u> |
|---------------------------|---|------------------|-------------------|
| <u>December 31, 2003:</u> | | <u>Exceeded:</u> | <u>Exceeded:</u> |
| 1000-110-190 | General - Police Personal Services | \$9,460 | 16% |
| 1000-110-252 | General - Travel and Transportation | \$1,531 | 23% |
| 1000-110-393 | General - Motor Vehicles | \$10,340 | 100% |
| 1000-715-351 | General - Council Insurance and Bonding | \$6,718 | 72% |
| 1000-740-344 | General - Auditing Services | \$1,700 | 30% |
| 1000-990-990 | General - Other Financing Uses | \$11,163 | 65% |
| | | | |
| <u>October 31, 2004:</u> | | | |
| 1000-110-433 | General - Repairs and Maintenance of Vehicles | \$4,226 | 33% |
| 1000-730-431 | General - Repairs and Maintenance of Building | \$6,361 | 71% |
| | | | |
| <u>December 31, 2004:</u> | | | |
| 1000-110-190 | General - Police Personal Services | \$3,531 | 5% |
| 1000-110-215 | General - Police OP&FP Fund | \$5,001 | 33% |
| 1000-110-393 | General - Police Motor Vehicles | \$18,390 | 79% |
| 1000-110-433 | General - Police Repair and Maintenance | \$5,694 | 40% |
| 1000-715-351 | General - Council Insurance and Bonding | \$306 | 3% |
| 1000-730-431 | General - Repairs and Maintenance of Building | \$16,004 | 86% |
| 3901-850-710 | Debt Service - Principal | \$764 | 100% |
| 3901-850-720 | Debt Service - Interest | \$46 | 100% |

Failure to properly appropriate and monitor expenditures can result in overspending funds and negative cash fund balances.

We recommend the Village Clerk and Village Council review budgetary financial reports to ensure expenditures do not exceed appropriations. The Village Clerk should deny payment requests exceeding appropriations. The Village Clerk may request the Village Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2004-006

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

VILLAGE OF HANGING ROCK
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)

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

FINDING NUMBER 2004-006 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

There are several exceptions to the standard requirement stated 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.

1. "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 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 (\$1,000 prior to April 7, 2003) 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 expenditures by the Village.

2. 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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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.

3. 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.

Neither the Village Clerk nor the Council Members obtained certification of available funds prior to incurring obligations, and there was no evidence of a "Then and Now" certificate or another exception being used by the Village Clerk.

Failure to certify the availability of funds properly can result in overspending funds and negative cash fund balances.

**VILLAGE OF HANGING ROCK
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

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

FINDING NUMBER 2004-006 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

Unless the Village uses the exceptions noted above, prior certification is not only required by statute but is also a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend the Village Clerk certify that funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village officials and employees obtain the Village Clerk's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certificate language of Section 5705.41 (D) requires to authorize disbursements. The Village Clerk should sign the certification at the time the Village incurs the commitment, and only when the requirements of Section 5705.41 (D) are satisfied. The Village Clerk should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

**VILLAGE OF HANGING ROCK
LAWRENCE COUNTY**

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

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|----------------|---|------------------|---|
| 2002-001 | Ohio Rev. Code 5705.41 (B) – Expenditures exceeded appropriations | No | A noncompliance citation is included in the current report as Finding Number 2004-005. |
| 2002-002 | Ohio Rev. Code 5705.41 (D) – Purchase orders were not certified. | No | A noncompliance citation is included in the current report as Finding Number 2004-006. |
| 2002-003 | Finding for Recovery – Ohio Rev. Code 2743.70 and 2949.091 - \$10,925 due to the Treasurer of State | Yes | |



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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
NOVEMBER 10, 2005**