



Mary Taylor, CPA
Auditor of State

VILLAGE OF DEERSVILLE
HARRISON COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Deersville
Harrison County
P.O. Box 34
Deersville, Ohio 44693

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 an 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 adverse 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.

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Mary Taylor, CPA
Auditor of State

September 11, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Deersville
Harrison County
P.O. Box 34
Deersville, Ohio 44693

To the Village Council:

We have audited the accompanying financial statements of the Village of Deersville, Harrison County, (the Village) as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006 and 2005, or its changes in financial position or cash flows where applicable for the years then ended.

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

The 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 11, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and 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.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

September 11, 2007

VILLAGE OF DEERSVILLE
HARRISON COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | <u>Governmental Fund Types</u> | | | Totals (Memorandum Only) |
|---|--------------------------------|------------------------------|------------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | |
| Cash Receipts: | | | | |
| Property and Local Taxes | \$1,084 | | | \$1,084 |
| Intergovernmental | 13,138 | \$4,366 | | 17,504 |
| Earnings on Investments | 259 | 55 | | 314 |
| Miscellaneous | 304 | 100 | | 404 |
| | | | | |
| Total Cash Receipts | <u>14,785</u> | <u>4,521</u> | | <u>19,306</u> |
| Cash Disbursements: | | | | |
| Current: | | | | |
| Security of Persons and Property | 1,642 | | | 1,642 |
| Public Health Services | 800 | | | 800 |
| Transportation | | 5,529 | | 5,529 |
| General Government | 8,984 | 265 | | 9,249 |
| | | | | |
| Total Cash Disbursements | <u>11,426</u> | <u>5,794</u> | | <u>17,220</u> |
| | | | | |
| Total Receipts Over/(Under) Disbursements | <u>3,359</u> | <u>(1,273)</u> | | <u>2,086</u> |
| | | | | |
| Fund Cash Balances, January 1 | <u>22,953</u> | <u>5,692</u> | <u>\$1,805</u> | <u>30,450</u> |
| | | | | |
| Fund Cash Balances, December 31 | <u><u>\$26,312</u></u> | <u><u>\$4,419</u></u> | <u><u>\$1,805</u></u> | <u><u>\$32,536</u></u> |

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

VILLAGE OF DEERSVILLE
HARRISON COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2006

| | <u>Enterprise</u> |
|--|-------------------------------|
| Operating Cash Receipts: | |
| Charges for Services | \$15,228 |
| Miscellaneous | 200 |
| | <hr/> |
| Total Operating Cash Receipts | 15,428 |
| | <hr/> |
| Operating Cash Disbursements: | |
| Personal Services | 6,017 |
| Employee Fringe Benefits | 870 |
| Contractual Services | 1,572 |
| Supplies and Materials | 3,318 |
| Purchased Services | 1,691 |
| Other | 905 |
| | <hr/> |
| Total Operating Cash Disbursements | 14,373 |
| | <hr/> |
| Operating Income/(Loss) | 1,055 |
| | <hr/> |
| Fund Cash Balances, January 1 | 16,939 |
| | <hr/> |
| Fund Cash Balances, December 31 | <u><u>\$17,994</u></u> |

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

VILLAGE OF DEERSVILLE
HARRISON COUNTY

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

| | Governmental Fund Types | | | Totals (Memorandum Only) |
|--|-------------------------|--------------------|---------------------|--------------------------------|
| | General | Special Revenue | Capital Projects | |
| Cash Receipts: | | | | |
| Property and Local Taxes | \$1,224 | | | \$1,224 |
| Intergovernmental | 13,138 | \$3,834 | \$7,029 | 24,001 |
| Earnings on Investments | 101 | 26 | | 127 |
| Miscellaneous | 544 | | | 544 |
| Total Cash Receipts | 15,007 | 3,860 | 7,029 | 25,896 |
| Cash Disbursements: | | | | |
| Current: | | | | |
| Security of Persons and Property | 1,540 | | | 1,540 |
| Public Health Services | 800 | | | 800 |
| Transportation | 350 | 1,543 | | 1,893 |
| General Government | 8,287 | 706 | | 8,993 |
| Capital Outlay | | | 10,449 | 10,449 |
| Total Cash Disbursements | 10,977 | 2,249 | 10,449 | 23,675 |
| Total Receipts Over/(Under) Disbursements | 4,030 | 1,611 | (3,420) | 2,221 |
| Fund Cash Balances, January 1 | 18,923 | 4,081 | 5,225 | 28,229 |
| Fund Cash Balances, December 31 | \$22,953 | \$5,692 | \$1,805 | \$30,450 |

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

VILLAGE OF DEERSVILLE
HARRISON COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2005

| | <u>Enterprise</u> |
|--|-------------------------------|
| Operating Cash Receipts: | |
| Charges for Services | \$15,256 |
| Miscellaneous | 775 |
| | <hr/> |
| Total Operating Cash Receipts | 16,031 |
| | <hr/> |
| Operating Cash Disbursements: | |
| Personal Services | 5,534 |
| Employee Fringe Benefits | 720 |
| Contractual Services | 1,829 |
| Supplies and Materials | 2,096 |
| Purchased Services | 1,564 |
| Other | 1,122 |
| | <hr/> |
| Total Operating Cash Disbursements | 12,865 |
| | <hr/> |
| Operating Income/(Loss) | 3,166 |
| | <hr/> |
| Fund Cash Balances, January 1 | 13,773 |
| | <hr/> |
| Fund Cash Balances, December 31 | <u><u>\$16,939</u></u> |

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

**VILLAGE OF DEERSVILLE
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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 Deersville, Harrison County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water utilities and general government services. The Village contracts with the Deersville Community Volunteer Fire Department to receive fire protection and ambulance services.

The Village participates in a public entity risk pool. Note 6 to the financial statements provide additional information for this entity. This organization is:

Public Entities Pool of Ohio:

The Public Entities Pool of Ohio (PEP) is a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

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. 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.

2. Special Revenue Funds

These funds account for proceeds from 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 Fund:

**VILLAGE OF DEERSVILLE
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

Ohio Public Works Commission Fund – This fund receives grant monies for water and sewer construction projects.

4. 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 Fund:

Water Fund - This fund receives charges for services from residents to cover water service costs.

D. 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 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 2006 and 2005 budgetary activity appears in Note 3.

**VILLAGE OF DEERSVILLE
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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.

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:

| | | |
|-----------------|----------|----------|
| | 2006 | 2005 |
| Demand deposits | \$50,530 | \$47,389 |

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|-----------------|----------------------|--------------------|----------|
| General | \$14,955 | \$14,785 | (\$170) |
| Special Revenue | 3,200 | 4,521 | 1,321 |
| Enterprise | 14,000 | 15,428 | 1,428 |
| Total | \$32,155 | \$34,734 | \$2,579 |

2006 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|-----------------|----------------------------|---------------------------|------------|
| General | \$0 | \$11,426 | (\$11,426) |
| Special Revenue | 0 | 5,794 | (5,794) |
| Enterprise | 0 | 14,373 | (14,373) |
| Total | \$0 | \$31,593 | (\$31,593) |

2005 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|------------------|----------------------|--------------------|----------|
| General | \$14,902 | \$15,007 | \$105 |
| Special Revenue | 3,200 | 3,860 | 660 |
| Capital Projects | 5,225 | 7,029 | 1,804 |
| Enterprise | 13,000 | 16,031 | 3,031 |
| Total | \$36,327 | \$41,927 | \$5,600 |

**VILLAGE OF DEERSVILLE
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

| 2005 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$0 | \$10,977 | (\$10,977) |
| Special Revenue | 0 | 2,249 | (2,249) |
| Capital Projects | 0 | 10,449 | (10,449) |
| Enterprise | 0 | 12,865 | (12,865) |
| Total | \$0 | \$36,540 | (\$36,540) |

Contrary to Ohio Revised Code Section 5705.41(D), the Village did not certify or record the amount against the applicable appropriation account for the majority of expenditures and the Village did not utilize the exceptions provided by the Ohio Revised Code. Contrary to Ohio Revised Code Section 5705.38, the Village did not pass an appropriation measure in 2005 or 2006, which resulted in expenditures exceeding appropriations, which is in violation of Ohio Revised Code 5705.41(B).

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.

5. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

**VILLAGE OF DEERSVILLE
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. RISK MANAGEMENT

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides excess of funds available coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provide aggregate stop-loss coverage based upon the combined members' total insurable values.

If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**VILLAGE OF DEERSVILLE
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. RISK MANAGEMENT (Continued)

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005

| <u>Casualty Coverage</u> | <u>2006</u> | <u>2005</u> |
|--------------------------|---------------------|---------------------|
| Assets | \$30,997,868 | \$29,719,675 |
| Liabilities | (15,875,741) | (15,994,168) |
| Retained earnings | <u>\$15,122,127</u> | <u>\$13,725,507</u> |

| <u>Property Coverage</u> | <u>2006</u> | <u>2005</u> |
|--------------------------|--------------------|--------------------|
| Assets | \$5,125,326 | \$4,443,332 |
| Liabilities | (863,163) | (1,068,245) |
| Retained earnings | <u>\$4,262,163</u> | <u>\$3,375,087</u> |

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively.

These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$4,766. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

| <u>Contributions to PEP</u> | |
|-----------------------------|---------|
| 2004 | \$1,999 |
| 2005 | \$2,311 |
| 2006 | \$2,383 |

VILLAGE OF DEERSVILLE
HARRISON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)

6. RISK MANAGEMENT (Continued)

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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Mary Taylor, CPA

Auditor of State

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

Village of Deersville
Harrison County
P.O. Box 34
Deersville, Ohio 44693

To the Village Council:

We have audited the financial statements of the Village of Deersville, Harrison County, (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated September 11, 2007, 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 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all internal control deficiencies over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 and 2006-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies in the internal control that might be significant deficiencies and accordingly, we would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We noted certain internal control matters that we reported to the Village's management in a separate letter dated September 11, 2007.

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 we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2006-001 and 2006-002.

We also noted certain noncompliance or other matters that we reported to the Village's management in a separate letter dated September 11, 2007.

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

We intend this report solely for the information and use of the management and Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

September 11, 2007

**VILLAGE OF DEERSVILLE
HARRISON COUNTY**

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

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

FINDING NUMBER 2006-001

Non Compliance Citation

Ohio Revised Code Section 5705.41(D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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 no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than \$3,000 the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Village Council if such expenditure is otherwise valid.

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. 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 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 extent beyond the current year. More than one super blanket may be outstanding a particular time for any line item appropriation.

The Village did not properly certify or record the amount against the applicable appropriation accounts for 52% of tested expenditures in 2005 and 32% of tested expenditures in 2006. The Village did not utilize the certification exceptions described above.

Failure to certify the availability of funds and encumber appropriations could result in overspending and negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is 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, the Village departments should obtain approved purchase orders which include the fiscal officers certification that the amount required to meet the obligation has been lawfully appropriated and authorized prior to making a commitment. When prior certification is not possible, "then and now" certification should be used.

The Village fiscal officer should certify purchases to which Ohio Revised Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language which Ohio Revised Code section 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of Ohio Revised Code Section 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2006-002

Non Compliance Citation

Ohio Revised Code Section 5705.38 requires, in part, that on or about the first day of each fiscal year, an appropriation measure be passed. **Ohio Revised Code Section 5705.41(B)** states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The Village did not adopt an appropriation measure for either 2005 or 2006. As expenditures are limited by the appropriations established for each fund, all expenditures made by the Village in both years were not in compliance with the Ohio Revised Code.

Failure to pass an appropriation measure, which serves as a tool by which expenditures can be monitored, could result in overspending. The Village should pass an appropriation measure as required so that expenditures can be monitored and compliance with the Ohio Revised Code provisions can be attained. Expenditures should be limited to established appropriations for each fund.

Officials Response

We did not receive a response from Officials to the findings reported above.

**VILLAGE OF DEERSVILLE
HARRISON COUNTY**

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

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2004-001 | Ohio Revised Code Section 5705.41D Disbursements were not properly certified. | No | Cited again as finding number 2006-001. |
| 2004-002 | Ohio Revised Code Section 5705.38 and 5705.41(B) No appropriation measure and expenditures exceeded appropriations. | No | Cited again as finding number 2006-002. |
| 2004-003 | Ohio Revised Code Section 5705.36 No certification of ending balances | Yes | Fully corrected. |



Mary Taylor, CPA
Auditor of State

VILLAGE OF DEERSVILLE

HARRISON 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 8, 2007**