

**VILLAGE OF HOLMESVILLE**  
**HOLMES COUNTY**

**REGULAR AUDIT**

FOR THE YEARS ENDED DECEMBER 31, 2006 - 2005





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Village of Holmesville, Holmes County, prepared by Knox & Knox, CPAs, for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Accountants' Report* 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 *Independent Accountants' Report* 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

July 23, 2007

**This Page is Intentionally Left Blank.**

VILLAGE OF HOLMESVILLE  
HOLMES COUNTY

Table of Contents

<u>Title</u>	<u>Page</u>
Independent Accountants' Report .....	1
Combined Statement of Cash Fund Balances - All Fund Types December 31, 2006 and 2005 .....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006 .....	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary Fund Types - For the Year Ended December 31, 2006 .....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005 .....	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary Fund Types - For the Year Ended December 31, 2005 .....	7
Notes to the Financial Statements .....	8
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	14
Schedule of Findings .....	16
Schedule of Prior Audit Findings .....	17

**This page intentionally left blank.**

# KNOX & KNOX

---

Accountants and Consultants

## **Independent Accountants' Report**

Village of Holmesville  
Holmes County  
P.O. Box 113  
Holmesville, OH 44633-0133

We have audited the accompanying financial statements of the Village of Holmesville, Holmes County, Ohio, (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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, if any, made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared its 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 accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP would require the Village of Holmesville to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. While the Village of Holmesville does not follow GAAP, generally accepted auditing standards require 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 of Holmesville has elected not to reformat its statements. Since the Village of Holmesville does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village of Holmesville's combined funds as of December 31, 2006 and 2005, and their changes in financial position.

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 Holmesville, Holmes County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2007, on our consideration of the Village of Holmesville's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

**Knox & Knox**

Orrville, Ohio  
June 25, 2007

VILLAGE OF HOLMESVILLE  
HOLMES COUNTY

COMBINED STATEMENT OF CASH FUND BALANCES  
ALL FUND TYPES  
DECEMBER 31, 2006 AND 2005

Cash and Cash Equivalents	<u>2006</u>	<u>2005</u>
Cash and Cash Equivalents	<u>\$114,431</u>	<u>\$84,186</u>
Total Cash and Cash Equivalents	<u><u>\$114,431</u></u>	<u><u>\$84,186</u></u>
Cash Fund Balances		
Governmental Fund Types:		
General Fund	\$11,477	\$3,154
Special Revenue Funds	<u>36,530</u>	<u>33,092</u>
Total Governmental Funds	<u>48,007</u>	<u>36,246</u>
Proprietary Fund Types		
Enterprise Funds	<u>66,424</u>	<u>47,940</u>
Total Proprietary Fund Types	<u>66,424</u>	<u>47,940</u>
Total Cash Fund Balances	<u><u>\$114,431</u></u>	<u><u>\$84,186</u></u>

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

VILLAGE OF HOLMESVILLE  
HOLMES 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

	Governmental Fund Types		Total (Memorandum Only)
	General	Special Revenue	
Cash Receipts			
Property Tax and Other Local Taxes	\$18,949	\$70	\$19,019
Intergovernmental Receipts	27,240	25,250	52,490
Fines, Licenses, and Permits	18		18
Earnings on Investments	668	82	750
Miscellaneous	308	7,215	7,523
Total Cash Receipts	47,183	32,617	79,800
Cash Disbursements			
Current:			
Security of Persons and Property	5,981		5,981
Public Health Services	1,286		1,286
Community Environment		3,563	3,563
Basic Utility Services	292		292
Transportation		25,616	25,616
General Government	31,301		31,301
Total Cash Disbursements	38,860	29,179	68,039
Total Cash Receipts Over/(Under) Cash Disbursements	8,323	3,438	11,761
Fund Cash Balances, January 1	3,154	33,092	36,246
Fund Cash Balances, December 31	\$11,477	\$36,530	\$48,007

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

VILLAGE OF HOLMESVILLE  
HOLMES COUNTY

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

	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	\$173,852
Operating Cash Disbursements	
Personal Services	27,480
Contractual Services	29,791
Supplies and Materials	<u>5,743</u>
Total Operating Cash Disbursements	<u>63,014</u>
Operating Income	110,838
Non-Operating Cash Receipts	
Interest Receipts	38
Other Non-Operating Cash Receipts	<u>310</u>
Total Non-Operating Cash Receipts	348
Non-Operating Cash Disbursements	
Debt Service	84,401
Other Uses	<u>8,301</u>
Total Non-Operating Cash Disbursements	<u>92,702</u>
Net Receipts Over/(Under) Disbursements	18,484
Fund Cash Balances, January 1	<u>47,940</u>
Fund Cash Balances, December 31	<u><u>\$66,424</u></u>

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

VILLAGE OF HOLMESVILLE  
HOLMES COUNTY

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

	<u>Governmental Fund Types</u>		Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Property Tax and Other Local Taxes	\$14,579	\$357	\$14,936
Intergovernmental Receipts	27,210	20,877	48,087
Earnings on Investments	98	36	134
Miscellaneous	<u>582</u>	<u>          </u>	<u>582</u>
Total Cash Receipts	42,469	21,270	63,739
Cash Disbursements			
Current:			
Security of Persons and Property	4,922		4,922
Public Health Services	643		643
Community Environment		3,403	3,403
Basic Utility Services	4,929		4,929
Transportation		17,349	17,349
General Government	<u>41,028</u>	<u>          </u>	<u>41,028</u>
Total Cash Disbursements	51,522	20,752	72,274
Total Cash Receipts Over/(Under) Cash Disbursements	(9,053)	518	(8,535)
Fund Cash Balances, January 1	<u>12,207</u>	<u>32,574</u>	<u>44,781</u>
Fund Cash Balances, December 31	<u><u>\$3,154</u></u>	<u><u>\$33,092</u></u>	<u><u>\$36,246</u></u>

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

VILLAGE OF HOLMESVILLE  
HOLMES COUNTY

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

	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	\$139,098
Operating Cash Disbursements	
Personal Services	26,625
Contractual Services	9,612
Supplies and Materials	39,261
Total Operating Cash Disbursements	75,498
Operating Income	63,600
Non-Operating Cash Receipts	
Interest Receipts	44
Other Non-Operating Cash Receipts	4,806
Total Non-Operating Cash Receipts	4,850
Non-Operating Cash Disbursements	
Debt Service	84,399
Total Non-Operating Cash Disbursements	84,399
Net Receipts Over/(Under) Disbursements	(15,949)
Fund Cash Balances, January 1	63,889
Fund Cash Balances, December 31	\$47,940

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

VILLAGE OF HOLMESVILLE  
HOLMES COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Village of Holmesville , Holmes County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental and sewer services. 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 basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash

Certificates of deposit are valued at cost.

D. Fund Accounting

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

1. General Fund

The General fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to 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 Funds:

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

*Street Light Levy Fund* - This fund receives levy monies for the operation of the Villages' street lights.

VILLAGE OF HOLMESVILLE  
HOLMES COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Enterprise Fund

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

*Sewer Fund* - This fund receives charges for services from residents to cover the cost of providing this 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 fund, function or object level of, and appropriations may not exceed estimated resources. The 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 unencumbered 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 cancelled, and reappropriated in the subsequent year.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

VILLAGE OF HOLMESVILLE  
HOLMES COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

2. EQUITY IN POOLED CASH

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

	2006	2005
Demand deposits	\$104,084	\$ 74,186
Certificates of deposit	10,347	10,000
Total deposits	\$114,431	\$ 84,186

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

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

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$42,359	\$47,183	\$4,824
Special Revenue	20,529	32,617	12,088
Enterprise	256,070	174,200	(81,870)
Total	\$318,958	\$254,000	(\$64,958)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$43,868	\$38,860	\$5,008
Special Revenue	52,858	29,179	5,008
Enterprise	258,819	155,716	23,679
Total	\$355,545	\$223,755	\$131,790

VILLAGE OF HOLMESVILLE  
HOLMES COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005

3. BUDGETARY ACTIVITY (continued)

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$43,712	\$42,469	(\$1,243)
Special Revenue	18,529	21,270	2,741
Enterprise	120,000	143,948	23,948
Total	\$182,241	\$207,687	\$25,446

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$50,400	\$51,522	(\$1,122)
Special Revenue	37,379	20,752	(1,122)
Enterprise	158,592	159,897	16,627
Total	\$246,371	\$232,171	\$14,200

Contrary to the Ohio Revised Code Section 5705.41 (B), budgetary expenditures exceeded appropriation authority in the General and Enterprise Funds in 2005.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments for 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 owner, who must file a list of such property to the County by each April 30.

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

VILLAGE OF HOLMESVILLE  
HOLMES COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005

5. Debt

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission Loan	\$ 134,649	0.00%
USDA Mortgage Revenue Bonds	1,324,300	4.35-4.75%
Total	<u>\$1,458,949</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 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. 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 4.35%.

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

Year ending December 31:	OPWC Loan			Mortgage Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$9,974		\$9,974	\$14,500	\$61,961	\$76,461
2008	9,974		9,974	15,300	61,237	76,537
2009	9,974		9,974	16,000	60,480	76,480
2010	9,974		9,974	16,600	59,694	76,294
2011	9,974		9,974	17,600	58,862	76,462
2012-2016	49,870		49,870	100,700	280,456	381,156
2017-2021	34,909		34,909	127,100	252,993	380,093
2022-2026				160,000	218,397	378,397
2027-2031				201,700	174,802	376,502
2032-2036				254,100	119,862	373,962
2037-2041				320,300	50,619	370,919
2042-2044				80,400	464	80,864
	<u>\$134,649</u>		<u>\$134,649</u>	<u>\$1,324,300</u>	<u>\$1,399,827</u>	<u>\$2,724,127</u>

6. RETIREMENT SYSTEMS

The Village's employees belong to the Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The plan provides retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

VILLAGE OF HOLMESVILLE  
HOLMES COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 and 2005

6. RETIREMENT SYSTEMS (continued)

Contribution rates are also prescribed by the Ohio Revised Code. For 2006 and 2005, members contributed 9.0% and 8.5% of their gross salaries, respectively. The Village contributed an amount equal to 13.7% (2006) and 13.55% (2005) of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

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

8. CONTINGENCIES

The Village is actively involved in litigation to collect delinquent sewer charges. As of the date of this report, no counter-claims have been filed.

# KNOX & KNOX

---

Accountants and Consultants

## **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Holmesville  
Holmes County  
P.O. Box 113  
Holmesville, OH 44633-0133

We have audited the accompanying financial statements of the Village of Holmesville as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 25, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Village of Holmesville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted one matter involving the internal control over financial reporting and its operation that we consider to be a material weakness which is shown in the accompanying schedule as item 2006-002. However, we noted other matters involving internal control over financial reporting that we have reported to the management of the Village of Holmesville in a separate letter dated June 25, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Holmesville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, and is shown in the accompanying schedule as Item 2006-01.

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

***Knox & Knox***

Orrville, Ohio  
June 25, 2007

VILLAGE OF HOLMESVILLE  
HOLMES COUNTY  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

NONCOMPLIANCE CITATION

Ohio Revised Code Section 5705.41(B) requires that no subdivision expend money unless it has been lawfully appropriated. During 2005 fund level expenditures exceeded appropriations in the General and Enterprise Funds.

The Village should frequently compare actual expenditures plus outstanding encumbrances to appropriations at the fund level, the Village's legal level of control, to avoid potential overspending.

MANAGEMENT RESPONSE

The Village has implemented use of the UAN System and other procedures to prevent a reoccurrence.

FINDING NUMBER 2006-002

REPORTABLE CONDITION

USDA Department of Rural Development RUS Bulletin 1780-12 Part M(1) requires financial reporting be on an accrual basis.

During 2006 and 2005, the Village used the basis of accounting prescribed or permitted by the Auditor of State and did not subsequently adjust the financial statements to be presented on the accrual basis of accounting. The Village should comply with the accrual reporting provisions or obtain a written waiver from USDA.

MANAGEMENT RESPONSE

The Village is considering requesting a wavier, but has not done so as of the date of this report.

VILLAGE OF HOLMESVILLE  
HOLMES 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: <b><i>Explain:</i></b>
2004-001	Ohio Revised Code Section 5705.41(B) - expenditures exceeded appropriations.	No	Not corrected - reissued as Finding 2006-001
2004-002	USDA requires accrual basis of accounting	No	Not corrected - reissued as Finding 2006-002





**Mary Taylor, CPA**  
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  
AUGUST 2, 2007**