

**Village of North Hampton
Financial Statements
December 31, 2007 and 2006**



Mary Taylor, CPA

Auditor of State

Village Council
Village of North Hampton
250 West Clark Street
P.O. Box 457
North Hampton, Ohio 45349

We have reviewed the *Independent Auditors' Report* of the Village of North Hampton, Clark County, prepared by Taylor, Applegate, Hughes & Associates, Ltd., for the audit period January 1, 2006 through December 31, 2007. 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 Auditors' 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 Auditors' 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 North Hampton is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 24, 2008

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Village of North Hampton
Financial Statements
December 31, 2007 and 2006

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Taylor Applegate Hughes

AND ASSOCIATES, LTD

CERTIFIED PUBLIC
ACCOUNTANTS +
BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

Village of North Hampton
Clark County
P.O. Box 457
250 West Clark Street
North Hampton, Ohio 45349

To the Honorable Mayor and Village Council:

We have audited the accompanying financial statements of the Village of North Hampton, Clark County, Ohio, (the Village), as of and for the years ended December 31, 2007 and 2006. 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 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 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 years ended December 31, 2007 and 2006. Instead of the combined funds the accompanying financial statements present for 2007 and 2006, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2007 and 2006. While the Village 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, governmental units to reformat their statements. The Village has elected not to reformat its statements. Since the 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.

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In our opinion, because of the effects of the matters discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006 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, 2007 and 2006, or their changes in financial position or cash flows of its proprietary funds 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 and reserves for encumbrances of the Village, as of December 31, 2007 and 2006, 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 to include Management's Discussion and Analysis for the years ended December 31, 2007 and 2006. 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 a report dated July 9, 2008 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. 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Taylor, Applegate, Hughes & Assoc., Ltd.

Taylor, Applegate, Hughes and Associates, Ltd.
July 9, 2008

**NORTH HAMPTON VILLAGE
CLARK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
Cash Receipts:			
Property and Local Taxes	\$25,586.05	\$0.00	\$25,586.05
Intergovernmental	6,824.41	23,071.08	29,895.49
Fines, Licenses and Permits	183,924.98	0.00	183,924.98
Earnings on Investments	176.33	524.24	700.57
Miscellaneous	776.02	0.00	776.02
Total Cash Receipts	217,287.79	23,595.32	240,883.11
Cash Disbursements:			
Current:			
Security of Persons & Property	139,352.68	0.00	139,352.68
Leisure Time Activities	4,571.29	0.00	4,571.29
Transportation	0.00	30,631.09	30,631.09
General Government	91,127.26	0.00	91,127.26
Capital Outlay	0.00	0.00	0.00
Debt Service:			
Principal Payment	0.00	0.00	0.00
Interest and Fiscal Charges	0.00	0.00	0.00
Total Cash Disbursements	235,051.23	30,631.09	265,682.32
Total Receipts Over/(Under) Disbursements	(17,763.44)	(7,035.77)	(24,799.21)
Other Financing Receipts/(Disbursements):			
Interest and Other Fiscal Charges	(1,187.68)	0.00	(1,187.68)
Sale of Fixed Assets	0.00	0.00	0.00
Other Financing Sources	25.00	0.00	25.00
Other Financing Uses	(165.00)	0.00	(165.00)
Total Other Financing Receipts/(Disbursements)	(1,327.68)	0.00	(1,327.68)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements And Other Financing Disbursements	(19,091.12)	(7,035.77)	(26,126.89)
Fund Cash Balance, January 1	5,100.95	67,502.60	72,603.55
Fund Cash Balance, December 31	(\$13,990.17)	\$60,466.83	\$46,476.66
Reserve for Encumbrances, December 31	\$1,556.00	\$1.69	\$1,557.69

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

**NORTH HAMPTON VILLAGE
CLARK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Proprietary Fund Types	Fiduciary Fund Types	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts:			
Charges for Services	\$312,531.65	\$0.00	\$312,531.65
Fines, Licenses and Permits	0.00	0.00	0.00
Miscellaneous	0.00	0.00	0.00
Total Operating Cash Receipts	312,531.65	0.00	312,531.65
Operating Cash Disbursements:			
Current:			
Personal Services	12,682.37	0.00	12,682.37
Employee Fringe Benefits	2,674.91	0.00	2,674.91
Contractual Services	204,484.65	0.00	204,484.65
Supplies and Materials	11,733.40	0.00	11,733.40
Other	5,570.84	0.00	5,570.84
Total Operating Cash Disbursements	237,146.17	0.00	237,146.17
Operating Income/(Loss)	75,385.48	0.00	75,385.48
Non-Operating Receipts/Disbursements			
Intergovernmental	0.00	0.00	0.00
Capital Outlay	(1,258,105.90)	0.00	(1,258,105.90)
Redemption of Principal	(61,301.53)	0.00	(61,301.53)
Interest and Other Fiscal Charges	(101,828.55)	(784.00)	(102,612.55)
Other Non-Operating Cash Receipts	0.00	182,800.98	182,800.98
Other Non-Operating Cash Disbursements	0.00	(180,204.98)	(180,204.98)
Proceeds from Loans	1,261,902.90	0.00	1,261,902.90
Other Financing Sources	30,875.00	0.00	30,875.00
Other Financing Uses	0.00	0.00	0.00
Total Non-Operating Receipts/Disbursements	(128,458.08)	1,812.00	(126,646.08)
Income/(Loss)			
Before Interfund Transfers and Advances	(53,072.60)	1,812.00	(51,260.60)
Capital Contributions	36,425.00	0.00	36,425.00
Fund Cash Balance, January 1	129,779.44	13,359.00	143,138.44
Fund Cash Balance, December 31	\$113,131.84	\$15,171.00	\$128,302.84
Reserve for Encumbrances, December 31	\$62.59	\$0.00	\$62.59

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

**NORTH HAMPTON VILLAGE
CLARK 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>		<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
Cash Receipts:			
Property and Local Taxes	\$21,865.59	\$0.00	\$21,865.59
Intergovernmental	8,489.81	21,598.88	30,088.69
Fines, Licenses and Permits	155,069.40	0.00	155,069.40
Earnings on Investments	171.13	1,189.14	1,360.27
Miscellaneous	930.23	0.00	930.23
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	186,526.16	22,788.02	209,314.18
Cash Disbursements:			
Current:			
Security of Persons & Property	133,585.70	0.00	133,585.70
Leisure Time Activities	2,974.28	0.00	2,974.28
Transportation	0.00	36,933.43	36,933.43
General Government	64,707.48	0.00	64,707.48
Capital Outlay	30,601.48	0.00	30,601.48
Debt Service:			
Principal Payment	0.00	0.00	0.00
Interest and Fiscal Charges	0.00	0.00	0.00
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	231,868.94	36,933.43	268,802.37
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>
	(45,342.78)	(14,145.41)	(59,488.19)
Other Financing Receipts/(Disbursements):			
Sale of Fixed Assets	0.00	2,771.09	2,771.09
Proceeds of Loans	30,150.00	0.00	30,150.00
Other Financing Uses	(2,502.57)	0.00	(2,502.57)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	27,647.43	2,771.09	30,418.52
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements And Other Financing Disbursements	<hr/>	<hr/>	<hr/>
	(17,695.35)	(11,374.32)	(29,069.67)
Fund Cash Balance, January 1	<hr/>	<hr/>	<hr/>
	22,796.30	78,876.92	101,673.22
Fund Cash Balance, December 31	<hr/>	<hr/>	<hr/>
	\$5,100.95	\$67,502.60	\$72,603.55
Reserve for Encumbrances, December 31	<hr/>	<hr/>	<hr/>
	\$1,421.63	\$1.10	\$1,422.73

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

NORTH HAMPTON VILLAGE
CLARK COUNTY

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

	Proprietary Fund Types	Fiduciary Fund Types	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts:			
Charges for Services	\$249,092.40	\$0.00	\$249,092.40
Miscellaneous	0.00	0.00	0.00
Total Operating Cash Receipts	<u>249,092.40</u>	<u>0.00</u>	<u>249,092.40</u>
Operating Cash Disbursements:			
Current:			
Personal Services	12,926.19	0.00	12,926.19
Employee Fringe Benefits	3,037.88	0.00	3,037.88
Contractual Services	179,390.70	0.00	179,390.70
Supplies and Materials	9,907.05	0.00	9,907.05
Total Operating Cash Disbursements	<u>205,261.82</u>	<u>0.00</u>	<u>205,261.82</u>
Operating Income/(Loss)	<u>43,830.58</u>	<u>0.00</u>	<u>43,830.58</u>
Non-Operating Receipts/Disbursements			
Intergovernmental	0.00	0.00	0.00
Capital Outlay	(729,421.57)	0.00	(729,421.57)
Redemption of Principal	(30,023.69)	0.00	(30,023.69)
Interest and Other Fiscal Charges	(91,200.31)	0.00	(91,200.31)
Other Non-Operating Cash Receipts	0.00	160,717.00	160,717.00
Other Non-Operating Cash Disbursements	0.00	(154,669.40)	(154,669.40)
Proceeds from Loans	822,554.53	0.00	822,554.53
Other Financing Sources	20,050.00	0.00	20,050.00
Other Financing Uses	(500.00)	0.00	(500.00)
Total Non-Operating Receipts/Disbursements	<u>(8,541.04)</u>	<u>6,047.60</u>	<u>(2,493.44)</u>
Income/(Loss) Before Interfund Transfers and Advances	<u>35,289.54</u>	<u>6,047.60</u>	<u>41,337.14</u>
Fund Cash Balance, January 1	<u>94,489.90</u>	<u>7,311.40</u>	<u>101,801.30</u>
Fund Cash Balance, December 31	<u><u>\$129,779.44</u></u>	<u><u>\$13,359.00</u></u>	<u><u>\$143,138.44</u></u>
Reserve for Encumbrances, December 31	<u><u>\$76.05</u></u>	<u><u>\$0.00</u></u>	<u><u>\$76.05</u></u>

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

**VILLAGE OF NORTH HAMPTON
CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2007 and 2006**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The Village of North Hampton, Clark 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 water and sewer utilities, park operations (leisure time activities), 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 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 disclosures of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

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:

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.

**VILLAGE OF NORTH HAMPTON
CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2007 and 2006**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

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, maintaining and repairing Village streets.

State Highway Fund - This fund receives gasoline tax and motor vehicle tax money for the state's share of the cost of constructing, widening, maintaining, and reconstructing the state highways.

Permissive Motor Vehicle License Fund - This fund receives motor vehicle license tax money which must be used for highway, roads, streets or bridges.

Enterprise Funds

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:

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

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

Fiduciary Funds (Agency Fund)

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

Mayor's Court Fund - This fund is utilized to account for court fines and the distribution of court fines to the appropriate jurisdiction.

**VILLAGE OF NORTH HAMPTON
CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2007 and 2006**

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process

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

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 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.

A temporary appropriation resolution for fiscal year 2007 was adopted by Council but there is no indication that the resolution was submitted to the county auditor's office. Furthermore, there is no indication that an annual appropriation measure for the fiscal year 2007 was ever adopted by the Village Council.

Please see Finding Number 2007-07 for a detailed listing whereby fund expenditures exceeded appropriations for both 2007 and 2006.

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.

The Village was unable to produce documentation that the necessary tax rates/levies for 2007 were actually certified to the county auditor by the appointed date.

Encumbrances

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

A summary of 2007 and 2006 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 NORTH HAMPTON
CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2007 and 2006**

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. Equity in Pooled Cash and Investments

The Village maintains a cash and investments pool used by all funds. A separate account exists for Mayor's Court activity. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2007	2006
Demand Deposits	\$ 154,780	\$ 187,953
Certificates of Deposit	<u>20,000</u>	<u>27,789</u>
Total deposits and investments	<u>\$ 174,780</u>	<u>\$ 215,742</u>

Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

The Village surpassed the \$200,000 active deposits depository agreement threshold during 2006 by \$15,742.

3. Budgetary Activity

Budgetary activity for the year ending December 31, 2007, was as follows:

2007 Budgeted vs. Actual Receipts			
<u>Fund Type</u>	<u>Estimated Revenues</u> <u>Plus Carryover</u> <u>Balance</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 178,317	\$ 217,313	\$ 38,996
Special Revenue	109,347	23,595	(85,752)
Enterprise	<u>622,300</u>	<u>1,641,735</u>	<u>1,019,435</u>
Total	<u>\$ 909,964</u>	<u>\$ 1,882,643</u>	<u>\$ 972,679</u>

**VILLAGE OF NORTH HAMPTON
CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2007 and 2006**

3. Budgetary Activity (Continued)

2007 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 194,820	\$ 237,960	\$ (43,140)
Special Revenue	24,600	30,633	(6,033)
Enterprise	<u>252,305</u>	<u>1,658,445</u>	<u>(1,406,140)</u>
Total	<u>\$ 471,725</u>	<u>\$ 1,927,038</u>	<u>\$ (1,455,313)</u>

Budgetary activity for the year ending December 31, 2006, was as follows:

2006 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Estimated Revenues Plus Carryover Balance</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 192,273	\$ 216,526	\$ 24,253
Special Revenue	85,041	25,559	(59,482)
Enterprise	<u>257,432</u>	<u>1,091,697</u>	<u>834,265</u>
Total	<u>\$ 534,746</u>	<u>\$ 1,333,782</u>	<u>\$ 799,036</u>

2006 Budgetary vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 228,820	\$ 235,793	\$ (6,973)
Special Revenue	44,600	36,935	7,665
Enterprise	<u>252,305</u>	<u>1,056,483</u>	<u>(804,178)</u>
Total	<u>\$ 525,725</u>	<u>\$ 1,329,211</u>	<u>\$ (803,486)</u>

The appropriations exceeded the total estimated revenue by \$16,503 for the General Fund for 2007 and by \$36,547 in the General Fund for 2006. Expenditures exceeded appropriations in 2006 in the General Fund by \$6,973, the Water Fund by \$93,582, and the Sewer Fund by \$710,596. Expenditures exceeded appropriations in 2007 in the General Fund by \$43,140, the Special Revenue Fund by \$6,033, the Water Fund by \$527,868 and the Sewer Fund by \$878,272. The Village failed to obtain an amended certificate of estimated resources for both 2006 and 2007.

**VILLAGE OF NORTH HAMPTON
CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2007 and 2006**

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the 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, the first half is due December 31. The second half payment is due the following June 20. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

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

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

5. Debt

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
United States Dept. of Agriculture (USDA)	\$ 992,000	5.125%
Ohio Water Development Authority Loan 3772	\$ 833,531	4.34 %
Ohio Water Development Authority Loan 4276	\$ 1,001,102	1.00 %
Ohio Water Development Authority Loan 4547	\$ 1,556,891	1.50 %
Ohio Water Development Authority Loan 4817	\$ 3,238	1.50 %
Security National Bank Loan 1548548	\$ 30,150	5.55 %
Security National Bank Loan 1548549	\$ 52,433	5.55 %

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
United States Dept. of Agriculture (USDA)	\$ 1,004,000	5.125%
Ohio Water Development Authority Loan 3772	\$ 849,179	4.34 %
Ohio Water Development Authority Loan 4276	\$ 1,003,754	1.00 %
Ohio Water Development Authority Loan 4547	\$ 307,593	1.50 %
Security National Bank Loan 1548548	\$ 30,150	5.55 %
Security National Bank Loan 1548549	\$ 56,467	5.55 %

**VILLAGE OF NORTH HAMPTON
CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2007 and 2006**

5. Debt (Continued)

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

Year ending December 31:	Mortgage Revenue <u>Bonds</u>	OWDA <u>Loans</u>	Security National <u>Bank Loans</u>
2008	62,840	92,480	38,629
2009	63,225	92,480	6,720
2010	62,559	92,480	6,496
2011	62,893	92,480	6,272
2012	63,175	92,480	6,048
2013-2017	314,626	462,401	26,882
2018-2022	314,231	462,401	13,442
2023-2027	314,918	462,401	0
2028-2032	314,635	462,401	0
2033-2037	315,078	290,981	0
2038-2040	<u>188,835</u>	<u>0</u>	<u>0</u>
Total	<u>\$2,077,015</u>	<u>\$2,602,985</u>	<u>\$ 104,489</u>

Prior to 2007, the Village received a loan from the United States Department of Agriculture (USDA). The USDA loan relates to the construction and installation of a municipal sewer system. The loan will be repaid in annual payments through 2040. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates to sufficiently cover USDA debt service requirements.

Prior to 2007, the Village was awarded a loan from The Ohio Water Development Authority (OWDA) in the amount of \$878,160. The loan was for the water treatment plant renovation and expansion project. Semiannual principal and interest payments are \$26,313 beginning July 1, 2005 through 2035. The loan is collateralized by receipts from South Bay, LLC who pays \$25,000 and the Village of North Hampton pays the remaining \$1,313. The Village paid \$15,648 and \$36,979 during 2007 for principal and interest payments, respectively. The loan is collateralized by water receipts. The Village has agreed to set utility rates to sufficiently cover OWDA debt service requirements.

The Village was awarded a loan from the Ohio Water Development Authority (OWDA) in the amount of \$1,030,722. The loan was for sewer system construction. The loan is collateralized by receipts from contractual obligations shared by Northwestern Local Schools (\$10,825) and Chateau Estates (\$9,225). These receipts total \$20,050. Semiannual principal and interest payments are \$19,927 beginning January 1, 2007 through July 1, 2036. This loan was not recognized in the prior audit. It had an outstanding balance of \$556,114 at December 31, 2005.

**VILLAGE OF NORTH HAMPTON
CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2007 and 2006**

5. Debt (Continued)

During 2006, the Village was awarded a loan from the Ohio Water Development Authority (OWDA) in the amount of \$1,618,799. The loan was for water system improvements. The loan will be collateralized by receipts from contractual obligations shared by Northwestern Local Schools (\$12,405), German Township (\$12,700), Clark County on behalf of the former Village of Lawrenceville (\$8,300), and Spring Meadows. Spring Meadows is not yet fully developed and the amount it is to pay for its share of the obligation has not been determined. These receipts total \$33,405 at this point in time. Principal and interest payments are to begin July 1, 2008 through 2038. OWDA will provide an amortization schedule when the loan is fully disbursed.

During 2007, the Village was awarded a loan from the Ohio Water Development Authority (OWDA) in the amount of \$927,727. The loan was for a waterline extension. Principal and interest payments are to begin July 1, 2009 through 2039. OWDA will provide an amortization schedule when the loan is fully disbursed.

The Village obtained a general obligation loan during 2006 in the amount of \$30,150 from Security National Bank for playground equipment. The Village applied for and was awarded grant money for the playground equipment for the Village Park at the beginning of 2006. The Village had not received the grant money as of December 31, 2007. The Village paid \$1,188 for interest in 2007. The loan is scheduled to be repaid in full on July 1, 2008.

The Village obtained a general obligation loan during 2006 in the amount of \$60,500 from Security National Bank for financing sewer improvements within the Village. Fixed annual principal payments of \$4,033 plus interest are due beginning August 15, 2006 through 2020. The Village paid \$4,033 and \$3,134 during 2007 for principal and interest payments, respectively.

6. Retirement System

The Village's Mayor, Financial Officer, Mayor's Court clerk, part-time employees, and law enforcement officers belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost sharing, multiple-employer plan. This plan provides retirement benefits, including post retirement health care, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code. The Village's council are members of Social Security.

Contribution rates are also prescribed by the Ohio Revised Code. For 2007 and 2006, PERS members contributed 9.5% and 9%, respectively, of their wages. The Village contributed an amount equal to 13.85% and 13.70%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

**VILLAGE OF NORTH HAMPTON
CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2007 and 2006**

7. Social Benefit Plan

The elected officials, with the exception of the Village Mayor and Financial Officer, contribute to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants. For 2007 and 2006, these officials contributed 6.2% of their gross salaries. The Village contributed an amount equal to 6.2% of participant's gross salaries through December 31, 2007. The Village has outstanding contributions to Internal Revenue Service of \$1,001 as of December 31, 2007.

8. Risk Management

Risk Pool Membership

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Plan is a separate legal entity per Section 2744.081 of the Ohio Revised Code. The Pool provides property and casualty insurance for its members. The Plan pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles. The Pool cedes certain premiums to re-insurers or excess re-insurers. The Pool is contingently liable should any re-insurer be unable to meet its reinsurance obligations.

Members may withdraw at the end of any coverage period upon sixty (60) days' prior notice to the Pool. A withdrawing member not providing the required notification remains responsible for its unpaid claims, and also remains liable for additional assessments (if any) for years during which they were members.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained deficit at December 31, 2006 and 2005 (the latest information available).

	<u>2006</u>	<u>2005</u>
Assets	\$2,331,284	\$2,241,661
Liabilities	<u>(3,130,475)</u>	<u>(3,457,720)</u>
Retained deficit	<u>(\$799,191)</u>	<u>(\$1,216,059)</u>

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

**VILLAGE OF NORTH HAMPTON
CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2007 and 2006**

9. Outstanding Advances

Unpaid, interfund cash advances at December 31, 2007 were as follows:

<u>Fund Type/Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ -	\$ 10,000
Enterprise	<u>10,000</u>	<u>-</u>
Total-All Funds	<u>\$ 10,000</u>	<u>\$ 10,000</u>

The 2003 audited financial statements reflected an advance of \$10,000 from the Enterprise Fund to the General Fund. The advance has yet to be repaid.

10. Lease

The Village entered into a four year lease agreement with Ford Motor Credit Company for the acquisition of two 2006 Ford Crown Victoria police sedans with annual payments of \$10,942 beginning September 2005 through 2008. The Village holds a bargain purchase option for one dollar (\$1) that may be exercised at the end of the lease period whereby the Village will retain ownership of the police sedans.

The Village entered into a four year lease agreement with General Motors Acceptance Corporation (GMAC) for the acquisition of a 2006 GMC Sierra 3500 truck with monthly payments of \$781 beginning March 2006 through 2010. The Village made payments totaling \$17,185 during the audit period. The Village holds a bargain purchase option for one dollar (\$1) that may be exercised at the end of the lease period whereby the Village will retain ownership of the truck.

The following is a summary of future annual lease payments:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 18,524	\$ 1,792	\$ 20,316
2009	8,889	485	9,374
2010	1,543	15	1,557
2011	0	0	0
2012	<u>0</u>	<u>0</u>	<u>0</u>
	<u>\$ 28,956</u>	<u>\$ 2,292</u>	<u>\$ 31,247</u>

**VILLAGE OF NORTH HAMPTON
CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2007 and 2006**

11. Subsequent Events

The Village of North Hampton entered into a new sewer processing contract with the City of New Carlisle effective May 20, 2008. The Village has been in a dispute with New Carlisle regarding the increase of sewer processing rates. The Village had an outstanding balance of approximately \$50,762 as of December 17, 2007 due to New Carlisle. Under the new contract, the City of New Carlisle waived \$18,661.29 of accrued unpaid penalties. The new agreement is to remain in effect for forty years.

The Village of North Hampton applied for and was awarded a Nature Works Grant in the amount of \$29,976 from the Ohio Department of Natural Resources for playground equipment for Sturgeon Park around the beginning of 2006. The Village completed the project in 2006 and requested a disbursement from the grant for the costs associated with the equipment and the costs related to its installation. The Village had to take out a loan in the amount of \$30,000 to cover these costs until the disbursement was received. The Ohio Department of Natural Resources disbursed \$23,269.50 as of June 25, 2008. The remaining \$6,706.50 is to be disbursed upon receipt and satisfaction of additional paperwork requested by the Department.

Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Required by
Government Auditing Standards

Honorable Mayor and Village Council
Village of North Hampton
250 West Clark Street
North Hampton, Ohio 45349

To the Honorable Mayor and Village Council:

We have audited the financial statements of the Village of North Hampton, Clark County, Ohio (the Village) as of and for the years ended December 31, 2007, and December 31, 2006, and have issued our report thereon dated July 9, 2008 wherein we noted the Village of North Hampton prepared its financial statements using accounting practices the Auditor of State prescribes or permits 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 audit of the financial statements of the Village as of and for the years ended December 31, 2007 and 2006, in accordance with auditing standards generally accepted in the United State of America, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion 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 of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Internal Control Over Financial Reporting (continued)

However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control.

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2007-01, 2007-02, 2007-03, 2007-04, 2007-05, 2007-06, 2007-07, 2007-08, 2007-09, 2007-10, 2007-11, 2007-12, 2007-13, 2007-14, and 2007-15.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

We believe significant deficiencies 2007-01, 2007-02, 2007-03, 2007-04, 2007-05, 2007-06, 2007-12, and 2007-14 described above are material weaknesses.

We noted other matters involving the internal control over financial reporting, which we have reported to management of the Village in a separate letter dated July 9, 2008.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is disclosed in the accompanying Schedule of Findings as items 2007-01 through 2007-15.

Village of North Hampton
Clark County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 3

We noted certain immaterial instances of noncompliance that we have reported to the management of the Village in a separate letter dated July 9, 2008.

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.

This communication is intended solely for the information and use of the Village council and management, and is not intended to be and should not be used by anyone other than these specified parties.

Taylor, Applegate, Hughes & Assoc., Ltd.

Taylor, Applegate, Hughes and Associates, Ltd.
July 9, 2008

**VILLAGE OF NORTH HAMPTON
CLARK COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 and 2006**

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

FINDING NUMBER 2007 – 01

Noncompliance Citation/Significant Deficiency/Material Weakness

IRS Tax Filing Requirements

Internal Revenue Code Chapter 26, U.S.C. Sections 3401 – 3406, and Publication 15 (Circular E) requires that each quarter, all employers who pay wages subject to income tax withholding or Social Security and Medicare taxes must file Form 941, Employer's Quarterly Federal Tax Return, by the last day of the month that follows the end of the quarter. For each whole or part month that a return is not filed when required, there is a penalty of 5% of the unpaid tax due with that return. Additionally, for each whole or part month that the tax due is paid late, a penalty of 5% per month of the amount of tax generally applies. In addition to any penalties, interest accrues from the due date of the tax on any unpaid balance. Publication 15 (Circular E) also requires that all employers who are monthly depositors deposit employment tax payments of the current month by the fifteenth of the following month.

- The Village filed the quarterly Form 941s on time for all quarters in 2006 and 2007; however, all of the third quarter 2006 deposits were late. The January 2007 deposit for December 2006 was ten days late. The deposit for September 2007 was not deposited until October 22, 2007.
- The Village was unable to produce documentation of the Form 941 for the second quarter 2006.

The Village should institute procedures to provide that all tax requirements are met to prevent the assessment of interest and penalties and to provide for accurate reporting for its employees and contractors.

Client Response: Client did not provide a response.

FINDING NUMBER 2007 – 02

Noncompliance Citation/Significant Deficiency/Material Weakness

Accurate Financial Statements

Ohio Rev. Code Section 733.28 requires the Clerk to keep the books and to exhibit accurate statements of all moneys received and expended, of all property owned by the Village and income derived there from, and all taxes and assessments. The Village Fiscal Officer failed to perform monthly bank reconciliations and present them to the Village Council on a timely basis. Bank reconciliations for February and March 2006 were not done until April 30, 2006. Bank reconciliations for June and July 2006 were not done until August 25, 2006, and September through December 2006 bank reconciliations were not performed until December 31, 2006. Bank reconciliations for February through November 2007 were not done until December 2007.

In addition, December 2007 fines/fees from the Magistrate's Court were included as part of December's deposits in transit on the December 2007 bank reconciliation rather than being recorded in January of the following year. The resulting adjustment of \$3,051 helped to create a negative fund balance for the General fund in the amount of \$13,990.17.

The Village should implement procedures to insure that bank reconciliations are done timely. The Village should also implement procedures for proper revenue recognition of Magistrate Court receipts.

Client Response: Client did not provide a response.

FINDING NUMBER 2007 – 03

Noncompliance Citation/Significant Deficiency/Material Weakness

Timely Adoption of Appropriations

Ohio Rev. Code Section 5705.38(A) requires that, on or about the first day of the fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until April 1 of the current year. A temporary appropriation resolution for fiscal year 2007 was adopted by Council but there is no indication that the resolution was submitted to the county auditor's office. Furthermore, there is no indication that an annual appropriation measure for the fiscal year 2007 was ever adopted by the Village Council.

Timely adoption of appropriations helps to monitor overspending of Village resources. Procedures should be adopted to make sure that annual appropriations are submitted to the county auditor timely and that temporary annual appropriations are followed up with an annual appropriation measure and submitted to the county auditor by April 1.

FINDING NUMBER 2007 – 03
(Continued)

Client Response: Appropriation resolutions were adopted and submitted to the county auditor’s office timely. Several attempts were made by the clerk and a council member to retrieve a date stamped copy from the county for audit purposes and was unsuccessful.

FINDING NUMBER 2007 – 04

Noncompliance Citation/Significant Deficiency/Material Weakness

Certification of Funds

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.

There are several exceptions to the standard requirement state 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 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. 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

FINDING NUMBER 2007 – 04
(Continued)

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.

The Village should establish a dollar amount for blanket purchase orders via a resolution. Failure to establish a dollar amount for blanket purchase orders could result in overspending and misappropriation of funds. We recommend that Council establish a dollar amount for blanket purchase orders via a resolution in the minutes.

The Village had a blanket certificate in the amount of \$200 that extended beyond fiscal year 2006 into fiscal year 2007. We recommend that blanket certificates be established at the beginning of the fiscal year and reviewed at that time to make sure that there are not carryovers from the prior year and that the amount established for each line item is reasonable.

Client Response: We did not have any new blanket purchase orders in 2006 or 2007. There was one blanket certificate that did not get closed from the prior year that was carried over; however, that blanket certificate was never issued.

FINDING NUMBER 2007 – 05

Noncompliance Citation/Significant Deficiency/Material Weakness

Certification of Tax Rates/Levies

Ohio Rev. Code Section 5705.34 requires that each taxing authority is to pass an ordinance or resolution to authorize the necessary tax levies. Each authority is to certify the levies to the county auditor before October 1st, unless a later date is approved by the tax commissioner. While the Village Council passed the resolution to authorize the necessary tax levies, the Fiscal Officer was unable to produce documentation that the necessary tax rates/levies for 2007 were actually certified to the county auditor by the appointed due date.

Procedures should be developed and implemented to provide for timely certification and submission of the tax rates.

Client Response: The tax levy was passed by a resolution by council and submitted to the county timely. Several attempts were made by the clerk and a council member to retrieve a date stamped copy from the county for audit purposes and was unsuccessful.

FINDING NUMBER 2007 – 06

Noncompliance Citation/Significant Deficiency/Material Weakness

Appropriations Not To Exceed Revenues

Ohio Rev. Code Section 5705.39 requires that the total appropriation from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official certificate. The following Village funds had appropriations which exceeded the total estimated revenues.

<u>Fiscal Year 2007</u>	<u>Appropriation</u>	<u>Estimated Revenues</u>	<u>Variance</u>
General Fund	\$ 194,820	\$ 178,317	\$(16,503)
<u>Fiscal Year 2006</u>	<u>Appropriation</u>	<u>Estimated Revenues</u>	<u>Variance</u>
General Fund	\$ 228,820	\$ 192,273	\$(36,547)

Procedures should be implemented to routinely compare this activity and make any necessary amendments to reduce the possibility of overspending Village resources.

Client Response: The fiscal officer has been told by the county auditor’s office that they do not send amended certificates if the total appropriations from each fund does not exceed the total official certificate. The Village has never received acknowledgement from the county when appropriations are amended.

FINDING NUMBER 2007 – 07

Noncompliance Citation/Significant Deficiency

Expenditures Not To Exceed Appropriations

Ohio Rev. Code Section 5705.41(B) states that “no subdivision or taxing unit is to expend money unless it has been appropriated”. The following Village funds had expenditures which exceeded appropriations:

FINDING NUMBER 2007 – 07
(Continued)

<u>Fiscal Year 2007</u>	<u>Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund	\$ 194,820	\$ 237,960	\$ (43,140)
Special Revenue Fund	24,600	30,633	(6,033)
Water Fund	96,055	623,923	(527,868)
Sewer Fund	156,250	1,034,522	(878,272)
<u>Fiscal Year 2006</u>	<u>Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund	\$ 228,820	\$ 235,793	\$ (6,973)
Water Fund	96,055	189,637	(93,582)
Sewer Fund	156,250	866,846	(710,596)

Procedures should be implemented to routinely compare this activity and make any necessary amendments to reduce the possibility of overspending Village resources.

Client Response: The large variances in the Water and Sewer funds were due to extension projects that are being financed through the Ohio Water Development Authority (OWDA). These are “in and out” transactions. We receive payments from the OWDA that are initiated by the Engineering firm and an equal amount is then disbursed to the designated contractor. We do not know what these amounts will be until the check arrives from the OWDA.

FINDING NUMBER 2007 – 08

Noncompliance Citation/Significant Deficiency

Preservation of Records

Ohio Rev. Code Section 149.351(A) states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under sections 149.38 to 149.42 of the Revised Code. Such records shall be delivered by outgoing officials and employees to their successors and shall not otherwise be removed, transferred or destroyed unlawfully.

For fiscal year 2007, there were 7% of General Fund disbursements tested that had the wrong warrant number. Additionally, 7% of the same fund tested exhibited that the warrant date on the original warrant did not agree with the warrant date recorded in the UAN system and there was not supporting documentation attached to the Purchase Order. The same finding occurred in 8% of the Special Revenue Fund, 32% of the Sewer Fund, and 12% of the Water Fund disbursements tested.

FINDING NUMBER 2007 – 08
(Continued)

Failure to maintain complete documentation for expenditures could result in the inability to defend against possible disputed amounts, cause potential problems for future management decisions, and allow for misappropriation of assets. The Village should adopt and implement a policy for the preservation of records to include making sure that warrant numbers and dates are appropriately recorded in the UAN system and that appropriate documentation is attached to Purchase Orders by the Fiscal Officer before signing their approval for payment.

Client Response: Client did not provide a response.

FINDING NUMBER 2007 – 9

Noncompliance Citation/Significant Deficiency

Timely and Accurate W-2 Processing/Inaccurate Tax Reporting

26 U.S.C. Sections 3401 through 3406 govern the collection of income taxes, including the withholding and reporting of these matters to the appropriate tax authorities.

A W-2 for 2004 was not issued for Dirk Gibson who was employed with the Village as a police officer and earned \$912. It appears that these wages were not reported on the first quarter Form 941 for 2004. Additionally, employee withholdings and employer contributions for Medicare and OPERS should have been recorded and paid.

Client Response: Client did not provide a response.

FINDING NUMBER 2007 – 10

Noncompliance Citation/Significant Deficiency

Budgetary Procedures

Ohio Rev. Code Section 5705.36(A)(3) requires obtaining an increased amended certificate from the budget commission if the legislative authority intends to appropriate and expend excess revenue. For fiscal year 2006, the Village filed an amended appropriations resolution to increase appropriations but did not file an amendment for an increase of estimated resources to be appropriated. For fiscal year 2007, the Village appeared to have appropriated and expended resources without filing an amendment to increase estimated resources to be appropriated.

FINDING NUMBER 2007 – 10
(Continued)

The Village should file a certificate to amend appropriations to expend excess revenues with the county auditor before proceeding to expend such excess revenues. The Village should also obtain an amended certificate of estimated resources before making an amended appropriations certificate request.

Client Response: Amended appropriations were approved by council and submitted to the county. However, several attempts were made by the clerk and a council member to retrieve a date stamped copy from the county for audit purposes and was unsuccessful.

FINDING NUMBER 2007 – 11

Noncompliance Citation/Significant Deficiency

Advances

Ohio Rev. Code Section 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Although inter-fund cash advances may be a desirable method if resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans, the intent of this type of cash advance is to require repayment within the current or succeeding year. Auditor of State Bulletin 97-003 states that inter-fund cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer. Transfers are intended to reallocate money permanently from one fund to another and may be made only as authorized in Sections 5705.14 to 5705.16 of the Revised Code. Advances, on the other hand, are intended to temporarily reallocate cash from one fund to another and involve an expectation of repayment.
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the “creditor” fund) for the same purpose for which the fund receiving the cash (the “debtor” fund) was established.
- The reimbursement from the debtor fund to the creditor fund must not violate any restriction on use of the money to be used to make the reimbursement, and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision which must include a specific statement that the transaction is an advance of cash, and an indication of the money (fund) from which it is expected that repayment will be made.

The 2003 audited financial statements reflected an advance of \$10,000 from the Enterprise Fund (creditor) to the General Fund (debtor). The Village passed Resolution 2007-05 indicating the intent of the Council to repay the advance of \$10,000 from the General Fund (debtor) to the Enterprise Fund (creditor) as authorized in ORC Sections 5705.14 to 5705.16. Per the Resolution, the Village was to have

FINDING NUMBER 2007 – 11
(Continued)

repaid the advance but as of December 31, 2007, there was no indication that the repayment had occurred. If the Village wishes the advance to be converted to a transfer, then it must indicate that the \$10,000 is being transferred from the Enterprise Fund to the General Fund subject to the other requirements as outlined in ORC Sections 5705.14 to 5705.16. If the intent is to actually repay the advance, then the Village Council must specify when this action is to occur and record the repayment as outlined in the Ohio Revised Code.

Client Response: A resolution was passed by council to make this a permanent transaction, however, the wording in the actual resolution was incorrect. A corrected resolution will be submitted to council at the next scheduled meeting.

FINDING NUMBER 2007 – 12

Noncompliance Citation/Significant Deficiency/Material Weakness

Deposits of Public Monies

Ohio Rev. Code Section 9.38 requires public officials to deposit all public monies received with the treasurer of the public office or properly designated depository on the next business day following the day of receipt, if the total amount of such monies received exceeds \$1,000. If the total amount does not exceed \$1,000, the public official shall deposit the money on the next business day following the day of receipt unless the legislative authority of the public office adopts a policy permitting a different time period. The alternate time period, however, shall not exceed three business days following the day of receipt. Further, the policy must include procedures to safeguard the monies until the time of deposit. When designing the public office's system of internal control and the specific control activities, management should ensure that all transactions are properly authorized in accordance with management's policies, ensure that accounting records are properly designed, ensure adequate security of assets and records, and plan for adequate segregation of duties or compensating controls.

The Village Council passed Resolution 2007-4 to allow the Fiscal Officer and Magistrate's Court clerk three (3) business days to deposit funds; however, this Resolution was not followed by the Fiscal Officer regarding water/sewer customer payments. Deposits for the Village were made on the average of two to three times per month. Furthermore, the bank statement ending February 28, 2007 showed an overdraft of \$4,186.39. Failure to deposit receipts in a timely manner increases the risk factors for misappropriation of monies and a possible lack of sufficient funds for the Village's day-to-day operations and debt obligations.

We recommend that the Fiscal Officer have all payments sent to a lock box at the Village's banking institution to insure timely deposits and appropriate safeguarding of monies.

Client Response: Client did not provide a response.

FINDING NUMBER 2007 – 13

Noncompliance Citation/Significant Deficiency

Amended Appropriations

Ohio Revised Code Section 5704.40 requires that any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them. It appears that an amended appropriation measure was passed properly for fiscal year 2006. Appropriations for fiscal year 2007 appeared to have been amended as evidenced by recorded entries in the Village’s Uniform Accounting Network (UAN) system however, there is no evidence that an amended appropriation resolution was passed and submitted to the county auditor.

We recommend that the Village comply with the same laws used in making the original appropriations when amending or supplementing appropriations. We further recommend that the Village implement procedures to properly record amended or supplemented appropriations in the UAN system only after their proper submission and approval by the Village Council and the county auditor.

Client Response: Amended appropriations were approved by council and submitted to the county. However, several attempts were made by the clerk and a council member to retrieve a date stamped copy from the county for audit purposes and was unsuccessful.

FINDING NUMBER 2007 – 14

Noncompliance Citation/Significant Deficiency/Material Weakness

Design and Operation of Internal Control System

Ohio Administrative Code Section 117-2-01(A) states all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. Section 117-2-01 (B) states “internal control” means a process effected by an entity’s governing board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories of reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations, and safeguarding of assets.

In order to facilitate efficient operation of the Village, the Council Members need to consistently and timely receive detailed financial information to review and approve on a regular basis. The Council Members received detailed financial information for their review and approval at some council meetings; however, some reports were not provided on a regular basis as noted in Finding 2007-02 or not properly

FINDING NUMBER 2007 – 14
(Continued)

documented in the minutes. As a result, the Village's financial position was not able to be appropriately assessed in a timely manner and some of the Council Members' decisions were made based on false assumptions. In addition, errors occurred that were not detected in a timely manner. These issues have factored into the Village's current financial situation.

We recommend the Council Members require the Fiscal Officer to provide financial information, including financial statements, bank reconciliations, budgetary comparisons, and ledgers on a monthly basis for its review. We further recommend the Council Members document their approval of such information through the use of signatures, initials or approval in the council minutes.

Client Response: The council members are given monthly financial statements at each council meeting. They acknowledge receipt of these statements by signing a signature page printed directly from the UAN system and it is documented in the meeting minutes. The bank reconciliations are presented to the council for approval as well as they are completed.

FINDING NUMBER 2007 – 15

Noncompliance Citation/Significant Deficiency

O.R.C. Sec. 135.12 requires a five (5) year designation of depositories for subdivisions other than counties. The Village did not appear to have adopted a formal resolution during fiscal year 2006 for the designation of a depository even though they renewed their agreement timely with an appropriate financial institution. The Village also did not make an estimation of monies to be designated as interim or inactive deposits. The agreement covers active deposits up to two hundred thousand dollars (\$200,000) and total active, interim, and inactive deposits up to three hundred thousand dollars (\$300,000). The Village surpassed the \$200,000 active deposits threshold during 2006 by \$15,742. Active deposits consisted of two checking accounts totaling \$187,953 and one Certificate of Deposit in the amount of \$27,789. We recommend that the Village adopt a formal resolution to designate an appropriate depository. We further recommend that the Village monitor active deposits and provide that any estimated monies surpassing their \$200,000 active deposits threshold be designated as either interim or inactive deposits by a formal resolution of the Village Council.

Client Response: Client did not provide a response.

VILLAGE OF NORTH HAMPTON
CLARK COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 and 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-01	IRS Tax Filing Requirements	No	Not corrected-reissued as Finding 2007-01
2005-02	O.R.C. Sec. 733.27 - Accurate Meeting Minutes O.R.C. Sec. 733.28 - Accurate Financial Statements	No No	Partially corrected-See Management Letter comments Not corrected-reissued as Finding 2007-02
2005-03	O.R.C. Sec. 5705.38 (A) - Timely Adoption of Appropriations	No	Not corrected-reissued as Finding 2007-03
2005-04	O.R.C. Sec. 5705.41 (D) - Certification of Funds	No	Not corrected-reissued as Finding 2007-04
2005-05	O.R.C. Sec. 5705.28 - Adoption Of Tax Budget	Yes	Finding no longer valid
2005-06	O.R.C. Sec. 5705.34 - Certification of Tax Rates/ Levies	No	Not corrected-reissued as Finding 2007-05
2005-07	O.R.C. Sec. 5705.39 - Appropriations Not To Exceed Revenues	No	Not corrected-reissued as Finding 2007-06
2005-08	O.R.C. Sec. 5705.41 (B) - Expenditures Not To Exceed Appropriations	No	Not corrected-reissued as Finding 2007-07
2005-09	O.R.C. Sec. 149.351 (A) - Preservation of Records	No	Not corrected-reissued as Finding 2007-08
2005-10	26 U.S.C. Sections 3401-3406 - Timely and Accurate W-2 Processing	No	Not corrected-reissued as Finding 2007-09
2005-11	Budgetary Procedures	No	Not corrected-reissued as Finding 2007-10
2005-12	Uniform Accounting Network (UAN) financial information updates	Yes	Finding no longer valid
2005-13	O.R.C. Sec. 5705.10 Advances	No	Not corrected-reissued as Finding 2007-11
2005-14	O.R.C. Sec. 9.38 Deposits of Public Monies	No	Not corrected-reissued as Finding 2007-12



Mary Taylor, CPA
Auditor of State

VILLAGE OF NORTH HAMPTON

CLARK 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
DECEMBER 9, 2008