



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Hills and Dales
Stark County
2200 Dunkeith Drive, NW
Canton, Ohio 44708

To the Village Council:

We have audited the accompanying financial statements of the Village of Hills and Dales, Stark County, Ohio, (the Village) as of and for the years ended December 31, 1999 and 1998. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards 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 audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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 of Hills and Dales, Stark County, Ohio, as of December 31, 1999 and 1998, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2000 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 grants.

This report is intended solely for the information and use of management, Village Council, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

May 10, 2000

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**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Taxes	\$18,365	\$170,202	\$188,567
State Shared Taxes and Permits	2,376	21,902	24,278
Intergovernmental Receipts	195,672	4,361	200,033
Fines, Licenses, and Permits	2,943	334	3,277
Earnings on Investments	106,780	0	106,780
Miscellaneous	2,105	4,032	6,137
	<u>328,241</u>	<u>200,831</u>	<u>529,072</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	11,436	166,063	177,499
Public Health Services	7,965	0	7,965
Leisure Time Activities	73,231	0	73,231
Basic Utility Services	2,241	0	2,241
General Government	43,394	2,500	45,894
Capital Outlay	0	14,160	14,160
	<u>138,267</u>	<u>182,723</u>	<u>320,990</u>
Total Cash Disbursements			
Total Receipts Over Disbursements	<u>189,974</u>	<u>18,108</u>	<u>208,082</u>
Other Financing Receipts/(Disbursements):			
Advances-In	25,000	25,000	50,000
Advances-Out	<u>(25,000)</u>	<u>(25,000)</u>	<u>(50,000)</u>
Total Other Financing Receipts/(Disbursements)	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	189,974	18,108	208,082
Fund Cash Balances, January 1	<u>2,560,549</u>	<u>39,961</u>	<u>2,600,510</u>
Fund Cash Balances, December 31	<u>\$2,750,523</u>	<u>\$58,069</u>	<u>\$2,808,592</u>
Reserves for Encumbrances, December 31	<u>\$8,180</u>	<u>\$0</u>	<u>\$8,180</u>

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

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Taxes	\$17,752	\$167,155	\$184,907
State Shared Taxes and Permits	2,332	21,774	24,106
Intergovernmental Receipts	960,208	4,348	964,556
Fines, Licenses, and Permits	2,570	188	2,758
Earnings on Investments	99,276	0	99,276
Miscellaneous	678	9,892	10,570
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	1,082,816	203,357	1,286,173
Cash Disbursements:			
Current:			
Security of Persons and Property	6,446	159,412	165,858
Public Health Services	7,546	0	7,546
Leisure Time Activities	81,583	0	81,583
Transportation	0	3,255	3,255
General Government	40,935	0	40,935
Capital Outlay	11,560	25,173	36,733
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	148,070	187,840	335,910
	<hr/>	<hr/>	<hr/>
Total Receipts Over Disbursements	934,746	15,517	950,263
Other Financing Receipts/(Disbursements):			
Advances-In	22,000	22,000	44,000
Advances-Out	(22,000)	(22,000)	(44,000)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	0	0	0
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements			
	934,746	15,517	950,263
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	1,625,803	24,444	1,650,247
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$2,560,549</u>	<u>\$39,961</u>	<u>\$2,600,510</u>
	<hr/>	<hr/>	<hr/>
Reserves for Encumbrances, December 31	<u>\$3,000</u>	<u>\$0</u>	<u>\$3,000</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Hills and Dales, Stark 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 services, including 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 disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Certificates of deposit are valued at cost. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

Investments are included in the cash fund balance. 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.

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 Fund

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 Fund:

Police Fund - This fund receives tax revenue for police protection.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

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 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.

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 carried over, and need not be reappropriated.

A summary of 1999 and 1998 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investment 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:

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

	<u>1999</u>	<u>1998</u>
Demand deposits	\$ 113,976	\$ 111,291
Certificates of deposit	<u>2,500,000</u>	<u>0</u>
Total deposits	<u>2,613,976</u>	<u>111,291</u>
STAR Ohio	<u>194,616</u>	<u>2,489,219</u>
Total deposits and investments	<u><u>\$ 2,808,592</u></u>	<u><u>\$ 111,291</u></u>

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

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 1999 and 1998 follows:

1999 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 328,241	\$ 328,241	\$ 0
Special Revenue	<u>200,831</u>	<u>200,831</u>	<u>0</u>
Total	<u><u>\$ 529,072</u></u>	<u><u>\$ 529,072</u></u>	<u><u>\$ 0</u></u>

1999 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 146,447	\$ 146,447	\$ 0
Special Revenue	<u>182,723</u>	<u>182,723</u>	<u>0</u>
Total	<u><u>\$ 329,170</u></u>	<u><u>\$ 329,170</u></u>	<u><u>\$ 0</u></u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

3. BUDGETARY ACTIVITY (Continued)

1998 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,079,874	\$ 1,082,816	\$ 2,942
Special Revenue	203,357	203,357	0
Total	\$ 1,283,231	\$ 1,286,173	\$ 2,942

1998 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 151,070	\$ 151,070	\$ 0
Special Revenue	201,467	187,840	13,627
Total	\$ 352,537	\$ 338,910	\$ 13,627

Contrary to Ohio Revised Code §5705.41 (D), the Village did not properly certify its expenditures prior to purchase during 1999 and 1998.

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, the first half is due December 31. The second half payment is due the following June 20.

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

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

5. RETIREMENT SYSTEMS

The Village's part-time law enforcement officers belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. The plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 1999 and 1998, part-time law enforcement officers contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of the part-time law enforcement officers gross salaries. The Village has paid all contributions required through December 31, 1999.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998
(Continued)

5. RETIREMENT SYSTEMS (Continued)

In addition, the Village employs 3 full-time law enforcement officers. Contrary to Ohio Revised Code §§742.01, 742.31 and 742.33, the Village's full-time law enforcement officers did not contribute 10% of their wages to the Police and Fire Pension Fund, nor did the Village contribute an amount equal to 19.5% of their wages. The full-time law enforcement officers inappropriately contributed to PERS. The 1999 and 1998 gross wages for the 3 full-time law enforcement officers totaled \$91,948 and \$80,890, respectively.

6. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles

The Village also provides health insurance and dental and vision coverage to full-time employees through a private carrier.

7. COMPLIANCE

Contrary to Ohio Revised Code §149.351 the Village was unable to provide April, 1998 voucher packages.

Contrary to Ohio Administrative Code §§117-5-05, 117-5-06, 117-5-07 and 117-5-08, the Village did not properly classify certain receipts and expenditures.

Contrary to Ohio Administrative Code §117-5-09, the Village did not maintain its Cash Journal as required.

Contrary to Ohio Administrative Code §§117-5-10 and 117-5-11, the Village did not properly maintain its Receipt and Appropriation Ledgers.

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

Village of Hills and Dales
Stark County
2200 Dunkeith Drive, NW
Canton, Ohio, 44708

To the Village Council:

We have audited the accompanying financial statements of the Village of Hills and Dales, Stark County, Ohio, (the Village) as of and for the years ended December 31, 1999 and 1998, and have issued our report thereon dated May 10, 2000. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 1999-31276-001 through 1999-31276-004.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated May 10, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village'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 assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as items 1999-31276-002 and 1999-31276-004.

A material weakness is a 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated May 10, 2000.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a stylized flourish at the end.

Jim Petro
Auditor of State

May 10, 2000

**SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 1998**

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

Finding Number	1999-31276-001
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Ohio Revised Code § 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two exceptions to the above requirements:

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

Amounts less than \$1,000 may be paid by the fiscal officer without such affirmation of the taxing authority 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 taxing authority.

During 1999 and 1998, 25% and 96% of expenditures tested, respectively, were certified after the invoice date(s). Also, neither of the two exceptions were utilized. We recommend the Clerk inform all Village employees of the requirements of Ohio Revised Code Section 5705.41(D). The Village should implement the use of so called Then and Now certificates and Blanket Certificates as further permitted by Ohio Revised Code Section 5705.41. However, such certifications should only be used for reoccurring and reasonably predictable matters or emergency matters which may arise from time to time.

Finding Number	1999-31276-002
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Ohio Revised Code §149.351 requires that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by Ohio Revised Code Sections 149.38 through 149.42.

The Village was unable to locate April 1998 voucher packages; however, we tested this activity using alternative audit procedures. The Village should ensure all records are adequately safeguarded. In addition, Village Council should establish a records removal policy. This will help ensure voucher packages are not lost or destroyed.

**SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 1998
(Continued)**

Finding Number	1999-31276-003
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Ohio Revised Code §§742.01, 742.31 and 742.33 defines who shall be members of the Police and Fire Pension Fund. This section specifies that full-time law enforcement officers are required to be members.

The Village's full-time law enforcement officers did not contribute to the Police and Fire Pension Fund but instead contributed to the Public Employee's Retirement System. The failure of the Village to properly withhold and remit retirement contributions to Police and Fire may subject the Village to penalties and charges. We recommend the Village withhold and remit retirement contributions to the Police and Fire Pension Fund.

This issue has been referred to Police and Fire for whatever action they deem necessary.

Finding Number	1999-31276-004
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Ohio Administrative Code §117-5-01 provides that each Village which uses the cash basis of accounting use the uniform system of accounting prescribed by Ohio Administrative Code Sections 117-5-01 to 117-5-18. The Village did not comply with the following provisions of Section 117-5:

- **§§117-5-05, 117-5-06 and 117-5-08** establish guidelines for the proper coding and classifications of Village disbursements. **Section 117-5-07** establishes guidelines for the proper coding and classification of Village receipts.

During 1999, the Village Clerk incorrectly classified certain expenditures as capital outlay rather than as leisure time expenditures totaling \$73,231 which represents 53% of total expenditures. During 1998, the Village did not always properly code and classify state levied shared taxes, intergovernmental and interest receipts totaling \$24,106, \$940,234 and \$99,276, respectively, which represents 83% of total receipts. These errors were subsequently adjusted on the financial statements. Prior to posting receipts and expenditures, the Village Clerk should analyze the transaction and then record it to an appropriate receipt or expenditure line item. This will help ensure the financial statements are accurately presented.

- **Section 117-5-09** provides guidelines for the proper and complete maintenance of a Village Cash Journal.

During 1998, the following errors were noted in the Cash Journal:

- The Village Clerk did not maintain the STAR Ohio investment balance totaling \$2,489,218 within the cash fund balance which represent 96% of the total cash fund balance. As a result, the Cash Journal was understated and the Village's cash balance was not properly reconciled.
- The Village Clerk recorded various purchases and redemptions of investments as receipts or expenditures within the Cash Journal. As a result, receipts and expenditures were overstated.
- The Village Clerk did not total and reconcile the monthly Cash Journal activity to the Receipt or Appropriation Ledgers. This could result in errors not being detected in a timely manner.

**SCHEDULE OF FINDINGS
DECEMBER 31, 1999 AND 1998
(Continued)**

Finding Number	1999-31276-004
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(Continued)

The Village Clerk should perform the following:

- The Village Clerk should include all investment balances in the cash fund balance. This will help ensure the Cash Journal is not understated and the Village reconciles all bank and investment balances to the total cash fund balance.
 - The Village Clerk should not record purchases or redemptions of investments as receipts or expenditures. This will ensure receipts and expenditures are not overstated.
 - The Village Clerk should total and reconcile the monthly Cash Journal activity to the Receipt and Appropriation Ledgers. This will help ensure errors are detected timely.
- **§§117-5-10 and 117-5-11** provide guidelines for the proper and complete maintenance of a Village Receipt Ledger and Appropriation Ledger, respectively.

From the period January 1, 1998 through March 31, 1999, the Village utilized a manual accounting system. During this time, the Village did not record the estimated amount of money to be received or appropriated in the Receipt Ledger and Appropriation Ledger, respectively, for each respective receipt and expenditure account. This could result in the estimated receipts exceeding actual receipts or expenditures exceeding appropriations. The Village Clerk should record the estimated amount of money to be received, as indicated on the Certificate of Estimated Resources, and legally adopted appropriation for each respective receipt and expenditure account and subsequently reduce the estimated receipt and appropriation after each actual receipt and expenditure is recorded. This will provide the Village with an accurate comparison of estimated receipts versus actual receipts and appropriations versus actual expenditures.



STATE OF OHIO
OFFICE OF THE AUDITOR

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VILLAGE OF HILLS AND DALES

STARK 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 10, 2000**