

**VILLAGE OF HEMLOCK**

**AUDIT REPORT**

**JANUARY 1, 2005 - DECEMBER 31, 2006**

**Wolfe, Wilson, & Phillips, Inc.  
37 South Seventh Street  
Zanesville, Ohio 43701**





# Mary Taylor, CPA

Auditor of State

Village Council  
Village of Hemlock  
8765 Main Street SE  
Hemlock, Ohio 43730

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

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

July 16, 2007

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**VILLAGE OF HEMLOCK  
PERRY COUNTY  
JANUARY 1, 2005 - DECEMBER 31, 2006**

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**WOLFE, WILSON, & PHILLIPS, INC.  
37 SOUTH SEVENTH STREET  
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT**

Mayor and Village Council  
Village of Hemlock  
8765 Main Street SE  
Hemlock, Ohio 43730

We have audited the accompanying financial statements of the Village of Hemlock, Perry County, as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Village of Hemlock'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 of Hemlock 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. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

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

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

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

The aforementioned revision to generally accepted accounting principles also require the Village to include Management's Discussion and Analysis for the year ended December 31, 2006 and 2005. 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 April 27, 2007, on our consideration of the Village of Hemlock's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
April 27, 2007



**VILLAGE OF HEMLOCK  
PERRY COUNTY**

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

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$ 1,330	\$ -	\$ 1,330
Intergovernmental	8,059	6,391	14,450
Fines, Licenses, Permits	100	-	100
Earnings on Investments	115	-	115
Miscellaneous	2,939	75	3,014
<b>Total Cash Receipts</b>	<b>12,543</b>	<b>6,466</b>	<b>19,009</b>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons	612	-	612
Leisure Time Activities	264	-	264
Community Environment	-	2,475	2,475
Transportation	-	4,163	4,163
General Government	8,156	-	8,156
<b>Total Cash Disbursements</b>	<b>9,032</b>	<b>6,638</b>	<b>15,670</b>
<b>Total Receipts Over/(Under) Cash Disbursements</b>	3,511	(172)	3,339
<b>Fund Cash Balances, January 1</b>	<b>19,571</b>	<b>5,420</b>	<b>24,991</b>
<b>Fund Cash Balances, December 31</b>	<b>\$ 23,082</b>	<b>\$ 5,248</b>	<b>\$ 28,330</b>

See notes to financial statements.

**VILLAGE OF HEMLOCK  
PERRY COUNTY**

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

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$ 1,408	\$ -	\$ 1,408
Intergovernmental	8,024	16,596	24,620
Fines, Licenses, Permits	100	-	100
Earnings on Investments	19	-	19
<b>Total Cash Receipts</b>	<b>9,551</b>	<b>16,596</b>	<b>26,147</b>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons	776	-	776
Leisure Time Activities	6	-	6
Transportation	5,452	15,066	20,518
General Government	12,832	-	12,832
<b>Total Cash Disbursements</b>	<b>19,066</b>	<b>15,066</b>	<b>34,132</b>
<b>Total Receipts Over/(Under) Cash Disbursements</b>	<b>(9,515)</b>	<b>1,530</b>	<b>(7,985)</b>
<b>Fund Cash Balances, January 1</b>	<b>29,086</b>	<b>3,890</b>	<b>32,976</b>
<b>Fund Cash Balances, December 31</b>	<b>\$ 19,571</b>	<b>\$ 5,420</b>	<b>\$ 24,991</b>

See notes to financial statements.

**VILLAGE OF HEMLOCK  
PERRY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Hemlock, Perry 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, and an elected Mayor and Clerk. The Village provides maintenance of streets and highways.

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.

**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.

**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 is used to account for gasoline tax and motor vehicle license tax monies for constructing, maintaining and repairing Village streets.

**VILLAGE OF HEMLOCK  
PERRY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually.

**Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, and 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. Unencumbered appropriations lapse at year end.

**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.

**Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and are reappropriated in the subsequent year. The Village did not encumber all commitments required by law.

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

**F. Property, Plant and Equipment**

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

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	<u>2006</u>	<u>2005</u>
Demand deposits	\$ 25,830	\$ 22,491
Certificates of deposit	2,500	2,500
Total Deposits	<u>\$ 28,330</u>	<u>\$ 24,991</u>

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

**VILLAGE OF HEMLOCK  
PERRY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**3. BUDGETARY ACTIVITY**

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

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ -	\$ 12,543	\$ 12,543
Special Revenue	-	6,466	6,466
Total	\$ -	\$ 19,009	\$ 19,009

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 15,015	\$ 9,032	\$ 5,983
Special Revenue	10,329	6,638	3,691
Total	\$ 25,344	\$ 15,670	\$ 9,674

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	-	\$ 9,551	\$ 9,551
Special Revenue	-	16,596	16,596
Total	-	\$ 26,147	\$ 26,147

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 20,650	\$ 19,006	\$ 1,644
Special Revenue	17,894	15,066	2,828
Total	\$ 38,544	\$ 34,132	\$ 4,412

Contrary to Ohio Revised Code Section 5705.39, in 2006 and 2005 all funds appropriated more than estimated receipts.

Contrary to Ohio Revised Code 5705.41(D), the Village had expenditures where no prior certification was completed.

**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.

**VILLAGE OF HEMLOCK  
PERRY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**5. RETIREMENT SYSTEMS**

The Village elected officials and employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This 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 2006 and 2005, members of PERS contributed 9.0% and 8.5% of their gross salaries, respectively. The Village contributed an amount equal to 13.70% and 13.55% of participants gross salaries for 2006 and 2005, respectively. The Village has paid all employer contributions required through December 31, 2006.

**6. RISK MANAGEMENT**

The Village is uninsured for the following risks:

- Comprehensive property and general liability
- Public Officials' Liability

**WOLFE, WILSON, & PHILLIPS, INC.  
37 SOUTH SEVENTH STREET  
ZANESVILLE, OHIO 43701**

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

Mayor and Village Council  
Village of Hemlock  
8765 Main Street SE  
Hemlock, Ohio 43730

We have audited the financial statements of The Village of Hemlock as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated April 27, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. . We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financing Reporting**

In planning and performing our audit, we considered Village of Hemlock's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Villages internal control over financial reporting.

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

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

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. We noted certain matters that we have reported to management in a separate letter dated April 27, 2007.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village of Hemlock's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instances of noncompliance that are required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings as items 2006-01. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Village of Hemlock in a separate letter dated April 27, 2007.

This report is intended for the information of the Mayor, Clerk, Council and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

***Wolfe, Wilson, & Phillips, Inc.***  
Zanesville, Ohio  
April 27, 2007



**VILLAGE OF HEMLOCK  
PERRY COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006**

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

**FINDING NUMBER 2006-01**

Ohio Revised Code Section 5705.41(D) states in part that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

Prior certification was not obtained for 28.5% of the expenditures tested for 2006 and no certification of funds before or after a commitment was incurred in 2005.

The Clerk should certify funds before each payment is made through the issuance of a regular, blanket, or super blanket purchase order. Blanket certificates should be issued 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 council against any specific line item account over a period not running beyond the end of the current fiscal year. A super blanket purchase order can be completed for any amount for expenditures and contracts from a specific line item appropriation account in a specified fund for most recurring or reasonable predictable operating expenditures. This is not to extend beyond the current year. More than one super blanket may be outstanding at one particular time for a particular line item appropriation account.

Also, as an alternative, the Village can issue then and now certificates for expenses up to \$3,000. Then and now certificates allow the Clerk to certify that both at the time the expenditure was made and at the time that the certification is completed, sufficient funds are available. These certificates can be certified by the Clerk without subsequent authorization from Council. However, then and now certificates issued by the Clerk over \$3,000 must be authorized by Council within thirty days after payment.

**Client Response:** Client will more closely monitor and try to use the Then and Now certificates when applicable.

**VILLAGE OF HEMLOCK  
PERRY COUNTY**

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

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2004-01	5705.41(D) Prior Certification	No	Not Corrected: Cited in current report as citation 2006-01
2004-02	5705.38 Appropriation measure is to be passed	No	Partially Corrected; 2005 passed late included in management letter.
2004-03	5705.41(B) No money is to spent unless appropriated.	No	Partially Corrected; one fund included in management letter
2004-04	OAC 117-2-02 Accounting system maintained	Yes	Finding No Longer Valid



**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF HEMLOCK**

**PERRY 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  
JULY 26, 2007**