

**VILLAGE OF HAMERSVILLE
BROWN COUNTY, OHIO**

**AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2005 AND 2004**



Mary Taylor, CPA

Auditor of State

The Honorable Members of Village Council
Village of Hamersville
202 West Main Street
Hamersville, Ohio 45130

We have reviewed the *Independent Auditors' Report* of the Village of Hamersville, Brown County, prepared by Bastin & Company, LLC, for the audit period January 1, 2004 through December 31, 2005. 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 Hamersville is responsible for compliance with these laws and regulations.

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Mary Taylor, CPA
Auditor of State

February 13, 2008

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**VILLAGE OF HAMERSVILLE
BROWN COUNTY, OHIO**

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Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Members of Village Council
Village of Hamersville
202 West Main Street
Hamersville, Ohio 45130

We have audited the accompanying financial statements of the Village of Hamersville, Brown County, Ohio, (the Village) as of and for the years ended December 31, 2005 and 2004. 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, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. 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.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004 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, 2005 and 2004, or their changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2005 and 2004, 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 year ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2007, on our consideration of the Village's internal control over financial reporting and on 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 conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Bastin & Company, L L C". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
December 20, 2007

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 4,442	\$ 11,500	\$ 15,942
Intergovernmental Receipts	10,546	29,937	40,483
Licenses, Permits, and Fees	28,825	-	28,825
Earnings on Investments	3,026	159	3,185
Miscellaneous	104	-	104
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	46,943	41,596	88,539
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
Security of Persons and Property	32,140	5,705	37,845
Public Health Services	373	-	373
Transportation	-	14,753	14,753
General Government	20,365	-	20,365
Debt Service:			
Principal Payments	-	4,116	4,116
Interest and Fiscal Charges	-	415	415
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	52,878	24,989	77,867
	<hr/>	<hr/>	<hr/>
Total Receipts Over (Under) Disbursements	(5,935)	16,607	10,672
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	25,651	48,107	73,758
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$ 19,716</u>	<u>\$ 64,714</u>	<u>\$ 84,430</u>

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

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

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

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$ 747,013	\$ -	\$ 747,013
Total Operating Cash Receipts	<u>747,013</u>	<u>-</u>	<u>747,013</u>
Operating Cash Disbursements:			
Personal Services	76,936	-	76,936
Fringe Benefits	14,808	-	14,808
Contractual Services	479,832	-	479,832
Supplies and Materials	102,122	-	102,122
Total Operating Cash Disbursements	<u>673,698</u>	<u>-</u>	<u>673,698</u>
Operating Income	<u>73,315</u>	<u>-</u>	<u>73,315</u>
Non-Operating Cash Receipts:			
Earnings on Investment	237	-	237
Special Assessments	39,806	-	39,806
Other Non-Operating Receipts	-	33,039	33,039
Total Non-Operating Cash Receipts	<u>40,043</u>	<u>33,039</u>	<u>73,082</u>
Non-Operating Cash Disbursements:			
Debt Service-Principal	49,353	-	49,353
Debt Service-Interest	58,634	-	58,634
Other Non-Operating Cash Disbursements	-	30,978	30,978
Total Non-Operating Cash Disbursements	<u>107,987</u>	<u>30,978</u>	<u>138,965</u>
Excess of Receipts Over (Under) Disbursements Before Interfund Transfers	5,371	2,061	7,432
Transfers-In	75,919	-	75,919
Transfers-Out	<u>(75,919)</u>	<u>-</u>	<u>(75,919)</u>
Net Receipts Over (Under) Disbursements	5,371	2,061	7,432
Fund Cash Balances, January 1	<u>602,235</u>	<u>-</u>	<u>602,235</u>
Fund Cash Balances, December 31	<u>\$ 607,606</u>	<u>\$ 2,061</u>	<u>\$ 609,667</u>

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

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 8,268	\$ 12,559	\$ 20,827
Intergovernmental Receipts	10,854	32,845	43,699
Licenses, Permits, and Fees	36,124	-	36,124
Earnings on Investments	2,056	89	2,145
Miscellaneous	737	-	737
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	58,039	45,493	103,532
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
Security of Persons and Property	41,977	5,748	47,725
Public Health Services	490	-	490
Transportation	-	34,280	34,280
General Government	23,239	-	23,239
Debt Service:			
Principal Payments	-	3,947	3,947
Interest and Fiscal Charges	-	584	584
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	65,706	44,559	110,265
	<hr/>	<hr/>	<hr/>
Total Receipts Over (Under) Disbursements	(7,667)	934	(6,733)
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1 (restated)	33,318	47,173	80,491
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$ 25,651</u>	<u>\$ 48,107</u>	<u>\$ 73,758</u>

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

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$ 723,867	\$ -	\$ 723,867
Total Operating Cash Receipts	<u>723,867</u>	<u>-</u>	<u>723,867</u>
Operating Cash Disbursements:			
Personal Services	73,795	-	73,795
Fringe Benefits	13,568	-	13,568
Contractual Services	559,853	-	559,853
Supplies and Materials	96,308	-	96,308
Total Operating Cash Disbursements	<u>743,524</u>	<u>-</u>	<u>743,524</u>
Operating Loss	<u>(19,657)</u>	<u>-</u>	<u>(19,657)</u>
Non-Operating Cash Receipts:			
Special Assessments	39,455	-	39,455
Earnings on Investment	2,880	-	2,880
Proceeds from Loans	60,000	-	60,000
Other Non-Operating Receipts	1,040	33,654	34,694
Total Non-Operating Cash Receipts	<u>103,375</u>	<u>33,654</u>	<u>137,029</u>
Non-Operating Cash Disbursements:			
Capital Outlay	85,185	-	85,185
Debt Service-Principal	15,000	-	15,000
Debt Service-Interest	56,744	-	56,744
Other Non-Operating Cash Disbursements	-	38,653	38,653
Total Non-Operating Cash Disbursements	<u>156,929</u>	<u>38,653</u>	<u>195,582</u>
Excess of Receipts Over (Under) Disbursements Before Interfund Transfers	(73,211)	(4,999)	(78,210)
Transfers-In	69,251	-	69,251
Transfers-Out	<u>(69,251)</u>	<u>-</u>	<u>(69,251)</u>
Net Receipts Over (Under) Disbursements	(73,211)	(4,999)	(78,210)
Fund Cash Balances, January 1	<u>675,446</u>	<u>4,999</u>	<u>680,445</u>
Fund Cash Balances, December 31	<u>\$ 602,235</u>	<u>\$ -</u>	<u>\$ 602,235</u>

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

**VILLAGE OF HAMERSVILLE
BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Hamersville, Brown County, Ohio (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. A publicly elected, six-member Council directs the Village. The Village provides water, sewer and refuse utilities, road maintenance and police and fire protection.

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

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.

Money Market mutual funds are recorded at share values reported by the mutual fund.

D. Fund Accounting

The Village uses fund accounting to segregate cash deposits 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.

**VILLAGE OF HAMERSVILLE
BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

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

3. 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.

Bond Retirement Fund - This fund is used to retire debt issued from the 2001 series B Sewer System Improvement Bond.

Sewer Placement & Improvement – This fund received proceeds from the issuance of mortgage revenue bonds as required by bond covenant and can only be used for major repairs or improvements in the Village sewer system.

Garbage Operating Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

Electric Operating Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

4. Fiduciary Fund (Agency Fund)

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

Agency Fund – This fund receives fines collected by Mayor’s Court which are distributed to the Village and State.

**VILLAGE OF HAMERSVILLE
BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) 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. Unencumbered 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 re-appropriated.

A summary of 2005 and 2004 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.

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.

H. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund type eliminations have not been made in the aggregation of this data.

**VILLAGE OF HAMERSVILLE
BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash deposit 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:

	2005	2004
Demand deposits	\$585,335	\$567,468
Total deposits	585,335	567,468
Fifth Third U.S. Treasury Money Market Mutual Fund	108,762	108,525
Total Investments	108,762	108,525
Total Deposits and Investments	\$694,097	\$675,993

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 in mutual funds are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
	Budgeted	Actual	
Fund Type	Receipts	Receipts	Variance
General	\$ 53,562	\$ 46,943	\$ (6,619)
Special Revenue	50,869	41,596	(9,273)
Enterprise	879,748	862,975	(16,773)
Total	\$ 984,179	\$ 951,514	\$ (32,665)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
	Appropriation	Budgetary	
Fund Type	Authority	Expenditures	Variance
General	\$ 79,213	\$ 52,878	\$ 26,335
Special Revenue	98,976	24,989	73,987
Enterprise	1,481,983	857,604	624,379
Total	\$ 1,660,172	\$ 935,471	\$ 724,701

**VILLAGE OF HAMERSVILLE
BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 55,060	\$ 58,039	\$ 2,979
Special Revenue	45,702	45,493	(209)
Enterprise	843,943	896,493	52,550
Total	\$ 944,705	\$ 1,000,025	\$ 55,320

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 88,378	\$ 65,706	\$ 22,672
Special Revenue	92,875	44,559	48,316
Enterprise	1,519,389	969,704	549,685
Total	\$ 1,700,642	\$ 1,079,969	\$ 620,673

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.

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.

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

**VILLAGE OF HAMERSVILLE
BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

5. DEBT

Debt outstanding at December 31, 2005 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sewer System Mortgage Revenue Bond	\$935,000	5.91%
Police Cruiser Loan	7,558	4.20%
Water Purchase Loan	<u>30,646</u>	4.50%
Total	<u>\$973,204</u>	

The Village's Sewer System Mortgage Revenue Bonds were for the construction of the Village's sewer system. Per the debt covenants the Village transfers funds out of the Sewer Operating Fund to the Bond Retirement Fund to repay these bonds.

The Village issued debt for the purchase of a police cruiser. The note is for five years with quarterly payments of \$1,131.

On December 30, 2004, the Village obtained an unsecured bank loan for \$60,000 for the purchase of water for Village residents. The loan is for two years and carries an interest rate of 4.5 percent. The loan is payable in two annual payments, including interest, of \$32,068 on December 30, 2005 and 2006.

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

Year Ending December 31:	Mortgage Revenue Bonds	Police Cruiser Loan	Water Purchase Loan
2006	\$ 74,819	\$ 4,531	\$32,068
2007	73,719	3,396	-
2008	72,619	-	-
2009	76,519	-	-
2010	75,144	-	-
2011-2015	263,343	-	-
2016-2020	360,168	-	-
2021-2025	317,194	-	-
2026-2030	142,500	-	-
2031	503,500	-	-
Total	<u>\$1,959,525</u>	<u>\$7,927</u>	<u>\$32,068</u>

6. RETIREMENT SYSTEMS

All Village employees belong to the Public Employees Retirement System (PERS) of Ohio. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

**VILLAGE OF HAMERSVILLE
BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

Contribution rates are also prescribed by the Ohio Revised Code. For 2005 and 2004, PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2005 and 2004. The Village has paid all contributions required through December 31, 2005.

7. RISK POOL MEMBERSHIP

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

Casualty Coverage

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

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

Property Coverage

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

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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

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

Financial Position

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

**VILLAGE OF HAMERSVILLE
BROWN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$ 30,997,868	\$ 29,719,675
Liabilities	<u>(15,875,741)</u>	<u>(15,994,168)</u>
Retained earnings	<u>\$ 15,122,127</u>	<u>\$ 13,725,507</u>
<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$ 5,125,326	\$ 4,443,332
Liabilities	<u>(863,163)</u>	<u>(1,068,245)</u>
Retained earnings	<u>\$ 4,262,163</u>	<u>\$ 3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. This payable includes the subsequent year's contribution due if the Government terminates participation.

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

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

8. ADJUSTMENT TO BEGINNING FUND CASH BALANCES

During 2002 and 2003, the Village recorded five loan payments totaling \$5,663 for the purchase of a police cruiser in the General Fund. The Village has determined that due to the purpose of the loan, payments should have been recorded within the Police Protection Levy Fund. As a result, fund cash balances previously reported in the General fund and the Special Revenue Fund Type, as of December 31, 2004, have been restated to adjust for the effects of reclassifying these payments to the appropriate fund, as follows:

	<u>General Fund</u>	<u>Special Revenue Fund Type</u>
Fund cash balances as of December 31, 2003, as previously reported	\$27,655	\$52,836
Reclassified debt payments for 2002 and 2003	<u>5,663</u>	<u>(5,663)</u>
Fund cash balances as of December 31, 2003, restated	<u>\$33,318</u>	<u>\$47,173</u>

Bastin & Company, LLC

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Members of Village Council
Village of Hamersville
202 West Main Street
Hamersville, Ohio 45130

We have audited the accompanying financial statements of the Village of Hamersville, Brown County, Ohio (the Village), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated December 20, 2007, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management in a separate letter dated December 20, 2007.

Compliance and Other Matters

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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted other matters involving compliance that we have reported to management in a separate letter dated December 20, 2007.

This report is intended solely 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.

Bastin & Company, LLC

Cincinnati, Ohio
December 20, 2007

**VILLAGE OF HAMERSVILLE
BROWN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Status Explanation
2003-001	Budgetary non-compliance	Yes	Conditions reported in prior audit report that caused finding were not noted during current audit period
2003-002	Failure to follow bond covenants	No	A management letter comment has been made regarding the monthly transfer of funds
2003-003	Investment policy non-compliance	No	A management letter comment has been made
2003-004	Negative balance in Bond Retirement Fund	Yes	Corrected during the current audit period
2003-005	Segregation of duties	Yes	Conditions reported in prior audit report that caused finding were not noted during current audit period
2003-006	Improper amounts posted to the uniform Accounting System	Yes	Conditions reported in prior audit report that caused finding were not noted during current audit period



Mary Taylor, CPA
Auditor of State

VILLAGE OF HAMERSVILLE

BROWN 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
MARCH 6, 2008**