



**HOLMES FIRE DISTRICT #1
HOLMES COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005-2004



**Auditor of State
Betty Montgomery**

HOLMES FIRE DISTRICT #1
HOLMES COUNTY

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**Auditor of State
Betty Montgomery**

Holmes Fire District #1
Holmes County
P.O. Box 7 – 8478 SR 39 West
Millersburg, Ohio 44654

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS 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. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

September 20, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Holmes Fire District #1
Holmes County
P.O. Box 7 – 8478 SR 39 West
Millersburg, Ohio 44654

To the Board of Trustees:

We have audited the accompanying financial statements of Holmes Fire District #1, Holmes County, Ohio, (the District) as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the District'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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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. The District processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the District because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the District 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 District 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. While the District 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 District has elected not to reformat its statements. Since this District 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 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 District as of December 31, 2005 and 2004 or its changes in financial position 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 Holmes Fire District #1, Holmes County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the District to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The District 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 September 20, 2006, on our consideration of the District'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

September 20, 2006

**HOLMES FIRE DISTRICT #1
HOLMES COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$224,975	\$224,975		\$449,950
Intergovernmental	133,284	23,447	\$157,282	314,013
Charges for Services	109,279			109,279
Earnings on Investments	1,157			1,157
Miscellaneous	<u>8,877</u>			<u>8,877</u>
Total Cash Receipts	<u>477,572</u>	<u>248,422</u>	<u>157,282</u>	<u>883,276</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	194,822	178,432		373,254
General Government	88,029	5,238		93,267
Debt Service:				
Redemption of Principal	20,139			20,139
Interest	631			631
Capital Outlay	<u>120,175</u>	<u>56,664</u>	<u>157,282</u>	<u>334,121</u>
Total Cash Disbursements	<u>423,796</u>	<u>240,334</u>	<u>157,282</u>	<u>821,412</u>
Excess of Cash Receipts Over Cash Disbursements	53,776	8,088	0	61,864
Fund Cash Balances, January 1	<u>142,742</u>	<u>79,576</u>	<u>0</u>	<u>222,318</u>
Fund Cash Balances, December 31	<u>\$196,518</u>	<u>\$87,664</u>	<u>\$0</u>	<u>\$284,182</u>
Reserves for Encumbrances, December 31	<u>\$9,826</u>	<u>\$7,283</u>	<u>\$0</u>	<u>\$17,109</u>

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

**HOLMES FIRE DISTRICT #1
HOLMES COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$221,329	\$216,223	\$437,552
Intergovernmental	33,188	22,552	55,740
Charges for Services	102,057		102,057
Earnings on Investments	420		420
Miscellaneous	8,818		8,818
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	365,812	238,775	604,587
Cash Disbursements:			
Current:			
Security of Persons and Property	172,185	166,159	338,344
General Government	88,053	5,204	93,257
Debt Service:			
Redemption of Principal	39,000	38,750	77,750
Interest	2,873	996	3,869
Capital Outlay	9,757	6,996	16,753
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	311,868	218,105	529,973
Excess of Cash Receipts Over Cash Disbursements	53,944	20,670	74,614
Fund Cash Balances, January 1	88,798	58,906	147,704
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$142,742</u>	<u>\$79,576</u>	<u>\$222,318</u>

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

**HOLMES FIRE DISTRICT #1
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Holmes Fire District #1, Holmes County, (the District) 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 District is directed by appointed representatives from four political subdivisions consisting of the Village of Millersburg, Hardy Township, Mechanic Township, and Monroe Township. The Board of Trustees consists of five members, one member from each subdivision and one member at large whose appointment is made by one individual subdivision within the District on a yearly rotational basis. The principal purpose of the District is to pool mutual resources and abilities of the member subdivisions and thereby provide the subdivisions adequate and responsible fire protection and emergency medical services.

The District's management believes these financial statements present all activities for which the District is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting the Auditor of State prescribes or permits, which is similar to the cash receipts and disbursements basis of accounting. This basis recognizes receipts when received in cash rather than when earned and recognizes disbursements 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 adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

The District maintains all cash in an interest bearing checking account.

D. Fund Accounting

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

1. General Fund

The General Fund accounts for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

**HOLMES FIRE DISTRICT #1
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Fire Levy Fund – This fund accounts for the tax proceeds of a special operating levy used to provide fire protection and emergency medical service to the participating Townships and Village.

3. Capital Projects Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The District had the following significant Capital Project Fund:

FEMA Firefighters Assistance Grant Fund - This fund accounts for federal monies for the purpose of purchasing firefighters gear and other firefighters equipment.

E. Budgetary Process

The Ohio Revised Code requires the District to budget each fund annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The Board of Trustees 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 District to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The District records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**HOLMES FIRE DISTRICT #1
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH

The District 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 follows:

	2005	2004
Demand deposits	\$284,182	\$222,318

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the District.

3. BUDGETARY ACTIVITY

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

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$434,860	\$477,572	\$42,712
Special Revenue	229,200	248,422	19,222
Capital Projects	157,282	157,282	0
Total	\$821,342	\$883,276	\$61,934

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$571,206	\$433,622	\$137,584
Special Revenue	289,900	247,617	42,283
Capital Projects	157,282	157,282	0
Total	\$1,018,388	\$838,521	\$179,867

**HOLMES FIRE DISTRICT #1
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$321,860	\$365,812	\$43,952
Special Revenue	216,200	238,775	22,575
Total	\$538,060	\$604,587	\$66,527

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$395,795	\$311,868	\$83,927
Special Revenue	258,750	218,105	40,645
Total	\$654,545	\$529,973	\$124,572

4. NONCOMPLIANCE

Contrary to Ohio Rev. Code Sections 505.39, and 505.40, and 404.401, the District obtained commercial loans for the financing of operating activities and equipment purchases.

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board of Trustees adopts rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State then pays the District amounts equaling the homestead and rollback deductions. Payments are due to the County by December 31. If the property owner elects to pay semiannually, 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 District.

Tangible personal property tax owners assess that property. The property owners must file a tangible property list 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 District.

6. DEBT

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
Killbuck Savings Bank Loan	\$18,100	4.50%

**HOLMES FIRE DISTRICT #1
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

6. DEBT (Continued)

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

<u>Year ending December 31:</u>	<u>Killbuck Savings Bank</u>
2006	\$18,335

7. RETIREMENT SYSTEMS

The District's full-time fire fighters belong to the Ohio Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, members of OP&F contributed 10 percent of their wages to the OP&F. The District contributed an amount equal to 24 percent of their wages. OPERS member employees contributed 8.5 percent of their gross salaries. The District contributed an amount equal to 13.55 percent of participants' gross salaries.

All employees not otherwise covered by OPERS or OP&F System have an option to choose Social Security or OPERS/OP&F. For fiscal years 2005 and 2004, part-time firefighters and EMS personnel elected social security. The District's liability is 6.2% of wages paid.

8. RISK MANAGEMENT

Commercial Insurance

The District has obtained commercial insurance for the following risks:

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

There has been no reduction in coverage and claims have not exceeded coverage.

9. CONTINGENT LIABILITIES

Grantors may impose audit requirements on amounts they pay to the District. Grantors may require the District to refund any disallowed costs. Management cannot currently determine any which may be disallowed. However, based on prior experience, management believes any would be immaterial.

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Auditor of State Betty Montgomery

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

Holmes Fire District #1
Holmes County
P.O. Box 7 – 8478 SR 39 West
Millersburg, Ohio 44654

To the Board of Trustees:

We have audited the financial statements of the Holmes Fire District #1, Holmes County, Ohio, (the District) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated September 20, 2006, wherein we noted the District follows the accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the District uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the District because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated September 20, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2005-001. In a separate letter to the District's management dated September 20, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Holmes Fire District #1
Holmes County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 20, 2006

**HOLMES FIRE DISTRICT #1
HOLMES COUNTY**

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

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code Section 505.371 permits a joint fire district, pursuant to **Ohio Rev. Code Sections 505.39, 505.40 and 505.401** to levy taxes or issue bonds for operating revenues or equipment purchases. However, there is no provision in the Ohio Revised Code which allows a joint fire district to obtain bank loans for operating activities or equipment purchases.

During 2001, the District obtained commercial banks loans in the amount of \$155,000 and \$135,000 for equipment purchases and operating activities, respectively. At December 31, 2005, the District had paid off the equipment purchases loan and \$18,100 remained outstanding on the operating activities loan. The District should continue to repay the loans prior to maturity and as soon as it is financially capable. The District should levy additional taxes pursuant to Ohio Rev. Code Section 505.39 or issue bonds pursuant to Ohio Rev. Code Sections 505.40 and 505.401 when it is necessary to raise additional operating revenue or purchase equipment. The outstanding loan balance was fully repaid on March 13, 2006.

Officials' Response:

The District has taken corrective action by paying off the commercial bank loan well in advance of the maturity date. In the future, the District intends to obtain financing through bonds and tax levies.

**HOLMES FIRE DISTRICT #1
HOLMES COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-002	Ohio Rev. Sections 505.39, 505.40, 505.401	No	Not Corrected, Repeat as Finding 2005-001
2003-001	Ohio Rev. Code Section 5705.41(D) – Fiscal Officer Certification	Yes	Finding No Longer Valid



**Auditor of State
Betty Montgomery**

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HOLMES FIRE DISTRICT #1

HOLMES COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 14, 2006**