

**VILLAGE OF HAYESVILLE
ASHLAND COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2004 - 2003



**Auditor of State
Betty Montgomery**

Mayor and Council
Village of Hayesville
Hayesville, Ohio

We have reviewed the *Independent Accountants' Report* of the Village of Hayesville, Ashland County, prepared by Knox & Knox, CPAs, for the audit period January 1, 2003 through December 31, 2004. 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 Accountants' 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 Accountants' 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 Hayesville is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

May 4, 2006

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VILLAGE OF HAYESVILLE
ASHLAND COUNTY

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KNOX & KNOX

Accountants and Consultants

Independent Accountants' Report

Village of Hayesville
Ashland County
P. O. Box 246
Hayesville OH 44838

We have audited the accompanying financial statements of the Village of Hayesville, Ashland County, Ohio, as of and for the years ended December 31, 2004 and 2003. 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, if any, 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 its 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 variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

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 Hayesville's combined funds as of December 31, 2004 and 2003, and their changes in financial position.

Village of Hayesville
Ashland County
Report of Independent Accountants

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 Hayesville, Ashland County, as of December 31, 2004 and 2003, 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 March 27, 2006, on our consideration of the Village of Hayesville's internal control over financial reporting and our tests of its compliance with 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 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 audits.

Knox & Knox

Orrville Ohio
March 27, 2006

**VILLAGE OF HAYESVILLE
ASHLAND 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**

	Government Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 22,655			\$ 22,655
Intergovernmental	42,462	\$ 22,291	\$ 26,968	91,721
Charges for Services	7,960			7,960
Fines, Licenses, and Permits	2,146			2,146
Earnings on Investments	1,790	218		2,008
Miscellaneous	269			269
	77,282	22,509	26,968	126,759
Total Cash Receipts				
Cash Disbursements				
Current:				
Security of Persons and Property	8,640			8,640
Community Environment	400			400
Transportation		38,144		38,144
General Government	51,721			51,721
Debt Service:				
Principal Payments	4,139			4,139
Interest Payments	536			536
Capital Outlay			26,968	26,968
	65,436	38,144	26,968	130,548
Total Cash Disbursements				
Total Cash Receipts Over Cash Disbursements	11,846	<15,635>		<3,789>
Fund Cash Balances, January 1	18,788	42,594		61,382
Fund Cash Balances, December 31	\$ 30,634	\$ 26,959		\$ 57,593

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

**VILLAGE OF HAYESVILLE
ASHLAND 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>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	<u>Agency</u>	
Operating Cash Receipts:				
Charges for Services	\$ 79,556			\$ 79,556
Earnings on Investments		\$ 66		66
Fines and Costs			\$ 2,118	2,118
Miscellaneous	58			58
	<u>79,614</u>	<u>66</u>	<u>2,118</u>	<u>81,798</u>
Total Operating Cash Receipts				
Operating Cash Disbursements:				
Personal Services	15,764			15,764
Fringe Benefits	1,432			1,432
Contractual Services	6,949			6,949
Supplies and Materials	28,264			28,264
Debt Service:				
Principal Payments	6,342			6,342
Interest Payments	3,103			3,103
	<u>61,854</u>	<u></u>	<u></u>	<u>61,854</u>
Total Operating Cash Disbursements				
Operating Income	17,760	66	2,118	19,944
Non-Operating Cash Disbursements:				
Other Non-Operating Cash Disbursements			<2,118>	<2,118>
Net Receipts Over Disbursements	17,760	66		17,826
Fund Cash Balances, January 1	43,510	2,501		46,011
Fund Cash Balances, December 31	<u>\$ 61,270</u>	<u>\$ 2,567</u>		<u>\$ 63,837</u>

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

**VILLAGE OF HAYESVILLE
ASHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Government Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property, Taxes and Other Local Taxes	\$ 15,429			\$ 15,429
Intergovernmental	42,465	\$ 21,700	\$ 222,160	286,325
Charges for Services	7,860			7,860
Fines, Licenses, and Permits	1,758			1,758
Earnings on Investments	2,039	240		2,279
	69,551	21,940	222,160	313,651
Total Cash Receipts				
Cash Disbursements				
Current:				
Security of Persons and Property	8,576			8,576
Community Environment	300			300
Transportation		14,542		14,542
General Government	73,322			73,322
Debt Service:				
Principal Payments	6,103			6,103
Interest Payments	2,110			2,110
Capital Outlay			222,160	222,160
	90,411	14,542	222,160	327,113
Total Cash Disbursements				
Total Cash Receipts Over Cash Disbursements	<20,860>	<7,398>		<13,462>
Fund Cash Balances, January 1	39,648	35,196		74,844
Fund Cash Balances, December 31	\$ 18,788	\$ 42,594		\$ 61,382

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

**VILLAGE OF HAYESVILLE
ASHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	<u>Agency</u>	
Operating Cash Receipts:				
Charges for Services	\$ 70,074			\$ 70,074
Earnings on Investments		\$ 52		52
Fines and Costs			\$ 1,689	1,689
Total Operating Cash Receipts	<u>70,074</u>	<u>52</u>	<u>1,689</u>	<u>71,815</u>
Operating Cash Disbursements:				
Personal Services	15,463			15,463
Fringe Benefits	1,404			1,404
Contractual Services	7,100	125		7,225
Supplies and Materials	26,090			26,090
Debt Service:				
Principal Payments	54,315			54,315
Interest Payments	4,357			4,357
Total Operating Cash Disbursements	<u>108,729</u>	<u>125</u>		<u>108,854</u>
Operating Income/(Loss)	<38,655>	<73>	1,689	<37,039>
Non-Operating Cash Receipts				
Other Financing Services	51,150			51,150
Non-Operating Cash Disbursements:				
Other Non-Operating Cash Disbursements			<1,689>	<1,689>
Net Receipts Over Disbursements	12,495	<73>		12,422
Fund Cash Balances, January 1	<u>31,015</u>	<u>2,574</u>		<u>33,589</u>
Fund Cash Balances, December 31	<u>\$ 43,510</u>	<u>\$ 2,501</u>		<u>\$ 46,011</u>

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

**VILLAGE OF HAYESVILLE
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Hayesville, Ashland County, (the Village) is a body of corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected six-member Council. The Village provides water, utilities, park operations, 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

Investments are included in the fund cash 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.

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:

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 HAYESVILLE
ASHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (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. Capital Projects Fund

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following Capital Projects Fund:

CDBG Grant Fund - This fund receives Federal grant funds for wastewater plant facilities research.

4. Enterprise Funds

This funds 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 Enterprise Fund:

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

5. Fiduciary Funds (Trust and Agency Funds)

Trust Funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

Kendig Park Nonexpendable Trust Fund - This fund earns interest revenue which is used for park maintenance.

Mayor's Court Agency Fund - This fund accounts for the receipts and disbursements of fines and fees collected by the Village's Mayor's Court.

**VILLAGE OF HAYESVILLE
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund 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 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 individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2004 and 2003 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 and investments at December 31 was as follows:

	2004	2003
Demand deposits	\$118,864	\$ 98,695
Certificates of deposit	2,566	8,698
Total deposits	\$121,430	\$107,393

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

**VILLAGE OF HAYESVILLE
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2004 and 2003 follows:

Fund Type	2004 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$ 76,035	77,282	1,247
Special Revenue	19,678	22,509	2,831
Capital Projects	27,840	26,968	<872>
Enterprise	81,657	79,614	<2,043>
Nonexpendable Trust	150	66	<84>
Total	\$ 205,360	\$ 206,439	\$ 1,079

Fund Type	2004 Budgeted vs. Actual Budgetary Basis Expenditures		
	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 94,882	\$ 65,436	\$ 29,416
Special Revenue	62,272	38,144	24,128
Capital Projects	27,840	26,968	872
Enterprise	110,667	61,854	48,813
Nonexpendable Trust	150		150
Total	\$ 295,811	\$ 192,402	\$ 103,409

Fund Type	2003 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$ 59,630	69,551	\$ 9,921
Special Revenue	18,223	21,940	3,717
Capital Projects	250,000	222,160	<27,840>
Enterprise	86,296	121,224	34,928
Nonexpendable Trust	150	52	<98>
Total	\$ 414,299	\$ 434,927	\$ 20,628

Fund Type	2004 Budgeted vs. Actual Budgetary Basis Expenditures		
	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 113,780	\$ 90,411	\$ 23,369
Special Revenue	53,569	14,542	39,027
Capital Projects	250,000	222,160	27,840
Enterprise	102,811	108,729	<5,918>
Nonexpendable Trust	150	125	25
Total	\$ 520,310	\$ 435,967	\$ 84,343

Contrary to the Ohio Revised Code, the Village's expenditures exceeded appropriations in the Enterprise Fund Type during 2003; and, appropriations exceeded estimated resources in the General and Special Revenue Fund Types in 2004 and 2003, respectively.

**VILLAGE OF HAYESVILLE
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half 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.

5. DEBT

Debt outstanding at December 31, 2004 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan (issued 1992)	\$ 20,202	3.00%
Bank One Loan (issued 1996)	\$ 10,415	6.25%
Sutton Bank Loan(issued 2003)	\$ 45,025	5.00%
Total	\$ 75,642	

The Ohio Public Works Commission loan was obtained in 1992 in the original amount of \$56,000 and was used for the emergency replacement of the Village's water well. The loan will be paid in semiannual installments over a period of 20 years. The Bank One loan was obtained in 1996 in the original amount of \$36,000 to aid the Village in the purchase of property. The loan will be paid in monthly installments over a period of 10 years. The Sutton Bank loan was obtained in May 2003 in the amount of \$51,150. It is being paid in monthly installments over 10 years. The loan was obtained to pay the amount owed on Waterworks System Bonds.

**VILLAGE OF HAYESVILLE
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

5. DEBT (Continued)

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

	<u>OPWC Loan</u>	<u>Bank One Loan</u>	<u>Sutton Bank Loan</u>
Year ending December 31;			
2005	\$ 2,859	\$ 4,920	\$ 6,586
2006	2,859	1,374	6,586
2007	2,859		6,586
2008	2,859		6,586
2009	2,859		6,586
Subsequent	8,514		22,570
Total	<u>\$22,809</u>	<u>\$ 6,294</u>	<u>\$55,500</u>

6. RETIREMENT SYSTEM

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS 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.

Contributions rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks.

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

KNOX & KNOX

Accountants and Consultants

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

Village of Hayesville
Ashland County
P. O. Box 246
Hayesville, Ohio 44838

To the Village Council:

We have audited the accompanying financial statements of the Village of Hayesville, Ashland County, Ohio, (the Village) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated March 27, 2006. 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.

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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance that we have reported to the management of the Village in a separate letter dated March 27, 2006.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the management of the Village in a separate letter dated March 27, 2006.

Village of Hayesville
Ashland County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

Knox & Knox

Orrville, Ohio
March 27, 2006

VILLAGE OF HAYESVILLE
ASHLAND COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken, or Finding No Longer Valid: <i>Explain:</i>
2002-001	Revised Code 5705.41(D), failure to properly certify funds.	Yes	



**Auditor of State
Betty Montgomery**

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VILLAGE OF HAYESVILLE

ASHLAND 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
MAY 16, 2006**