

**VILLAGE OF HAYESVILLE
ASHLAND COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2006



Mary Taylor, CPA

Auditor of State

Village Council
Village of Hayesville
P.O. Box 246
Hayesville, Ohio 44838

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, 2006 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 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 19, 2008

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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 year ended December 31, 2006. 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 (GAAP). 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.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2006. In addition to the accompanying financial statements present for 2006, the revisions require presenting entity wide statements. While the Village of Hayesville 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 governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. 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 year ended December 31, 2006 does 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, 2006, or its changes in financial position or cash flows of its proprietary funds 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 of Hayesville, Ashland County, as of December 31, 2006, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

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 a part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2007, 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. While we do 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.

KNOX & KNOX

Orrville Ohio
August 6, 2007

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, 2006

	Government Fund Types			Total (Memorandum Only)
	General	Special Revenue	Capital Projects	
CASH RECEIPTS:				
Property Tax and Other Local Taxes	\$23,367			\$23,367
Intergovernmental	42,462	\$26,095	\$65,717	134,274
Charges for Services	8,068			8,068
Fines, Licenses, and Permits	1,395			1,395
Earnings on Investments	2,263	279		2,542
Miscellaneous	1,481			1,481
	<u>79,036</u>	<u>26,374</u>	<u>65,717</u>	<u>171,127</u>
CASH DISBURSEMENTS:				
Current:				
Security of Persons and Property	10,677			10,677
Community Environment	100			100
Transportation		43,534		43,534
General Government	58,088			58,088
Debt Service:				
Principal Payments	6,059			6,059
Interest Payments	378			378
Capital Outlay			1,117,138	1,117,138
	<u>75,302</u>	<u>43,534</u>	<u>1,117,138</u>	<u>1,235,974</u>
Total Cash Receipts Over Cash Disbursements	3,734	(17,160)	(1,051,421)	(1,064,847)
OTHER FINANCING RECEIPTS				
Debt Proceeds			1,067,126	1,067,126
Fund Cash Balance January 1	34,027	30,815	4,929	69,771
FUND CASH BALANCE DECEMBER 31	<u>\$37,761</u>	<u>\$13,655</u>	<u>\$20,634</u>	<u>\$72,050</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 PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Proprietary	Fiduciary		Totals (Memorandum Only)
	Fund Types	Fund Types		
	Enterprise	Nonexpendable Trust	Agency	
OPERATING CASH RECEIPTS:				
Charges for Services	\$157,510			\$157,510
Earnings on Investments	1,049	\$66		1,115
Fines and Costs			\$1,337	1,337
Total Operating Cash Receipts	158,559	66	1,337	159,962
OPERATING CASH DISBURSEMENTS:				
Personal Services	31,153			31,153
Fringe Benefits	4,049			4,049
Contractual Services	19,203			19,203
Supplies and Materials	20,651			20,651
Debt Service:				
Principal Payments	173,118			173,118
Interest Payments	3,334			3,334
Total Operating Cash Disbursements	251,508			251,508
Operating Income	(92,949)	66	1,337	(91,546)
NON-OPERATING CASH RECEIPTS (DISBURSEMENTS):				
Intergovernmental	115,293			115,293
Other Non-Operating Cash Disbursements			(1,337)	(1,337)
Net Receipts Over Disbursements	22,344	66		22,410
Fund Cash Balance January 1	52,467	2,633		55,100
FUND CASH BALANCE DECEMBER 31	\$74,811	\$2,699		\$77,510

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

VILLAGE OF HAYESVILLE
ASHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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 Village 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.

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.

VILLAGE OF HAYESVILLE
ASHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. FUND ACCOUNTING (continued)

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:

Capital Project - This fund receives grant and loan funds for wastewater plant facilities construction.

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.

Sewer 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.

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.

VILLAGE OF HAYESVILLE
ASHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. BUDGETARY PROCESS (continued)

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 2006 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, 2006 was as follows:

Demand deposits	\$146,982
Certificates of deposit	<u>2,578</u>
Total deposits	<u><u>\$149,560</u></u>

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
FOR THE YEAR ENDED DECEMBER 31, 2006

3. BUDGETARY ACTIVITY

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

Fund	2006 Budgeted vs Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General Fund	\$76,945	\$79,036	\$2,091
Special Revenue Funds	62,909	26,374	(36,535)
Capital Project	1,132,843	1,132,843	
Enterprise Funds	225,014	273,852	48,838
Nonexpendable Trust		66	66
Totals	<u>\$1,497,711</u>	<u>\$1,512,171</u>	<u>\$14,460</u>

Fund	2006 Budgeted vs Actual Budgetary Basis Expenditures		
	Appropriation Authority	Budgetary Expenditures	Variance
General Fund	\$110,972	\$75,302	\$35,670
Special Revenue Funds	93,724	43,534	50,190
Capital Project	1,117,138	1,117,138	
Enterprise Funds	277,481	251,508	25,973
Totals	<u>\$1,599,315</u>	<u>\$1,487,482</u>	<u>\$111,833</u>

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.

VILLAGE OF HAYESVILLE
ASHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

5. DEBT

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission (issued 1992)	\$15,593	3.00%
Sutton Bank Loan (issued 2003)	36,070	5.00%
Ohio EPA (issued 2005)	1,782,969	0.00%
Total	<u>\$1,834,632</u>	

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.. The Ohio EPA provided a no-interest credit of \$1,828,686 in 2005 and 2006, to be repaid in semi-annual installments of \$45,717.

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

	<u>OPWC Loan</u>	<u>Sutton Bank Loan</u>	<u>Ohio EPA</u>
Year ending December 31			
2007	\$2,859	\$6,586	\$91,434
2008	2,859	6,586	91,434
2009	2,859	6,586	91,434
2010	2,859	6,586	91,434
2011	2,859	6,586	91,434
2012-2016	2,796	9,398	457,170
2017-2021			457,170
2022-2026			411,459
Totals	<u>\$17,091</u>	<u>\$42,328</u>	<u>\$1,782,969</u>

VILLAGE OF HAYESVILLE
ASHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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 2006, OPERS members contributed 9.0% of their wages. The Village contributed an amount equal to 13.70% of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

7. RISK MANAGEMENT

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better related carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or 37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from Member to Member.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a Member chooses not to renew with the Plan, they have no other obligation to the Plan. The former Member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004 (the latest information available):

	<u>2005</u>	<u>2004</u>
Assets	\$8,219,430	\$6,665,522
Liabilities	<u>(2,748,639)</u>	<u>(2,227,808)</u>
Members' Equity	<u><u>\$5,470,791</u></u>	<u><u>\$4,437,714</u></u>

You can read the complete audited financial statements for the Ohio Government Risk Management Plan at Plan's website, www.ohioplan.org.

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KNOX & KNOX

Accountants and Consultants

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
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 year ended December 31, 2006, and have issued our report thereon dated August 6, 2007 wherein we note the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits 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 audits, we considered the Village'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 Village's 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. The results of our tests disclosed no material weaknesses. We disclosed other matters to the Village in a separate letter dated August 6, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance whether the Village of Hayesville'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We intend this report for the information and use of the audit committee, management, and the Village Council. We intend it for no one other than these specified parties.

KNOX & KNOX

Orrville, Ohio
August 6, 2007



Mary Taylor, CPA
Auditor of State

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
MARCH 6, 2008