

VILLAGE OF WAYNESVILLE

Regular Audit

Years Ended December 31, 2004 and 2003



**Auditor of State
Betty Montgomery**

Members of Council
Village of Waynesville
1400 Lytle Road
Waynesville, Ohio 45068

We have reviewed the *Independent Accountants' Report* of the Village of Waynesville, Warren County, prepared by Cassady Schiller & Associates, Inc. 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's Office (AOS). 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 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. 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 AOS 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 Waynesville is responsible for compliance with these laws and regulations.

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BETTY MONTGOMERY
Auditor of State

March 13, 2006

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VILLAGE OF WAYNESVILLE
REGULAR AUDIT
YEARS ENDED DECEMBER 31, 2004 AND 2003

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INDEPENDENT ACCOUNTANTS' REPORT

To the Village Council
Village of Waynesville



We have audited the accompanying financial statements of the Village of Waynesville, Warren County, Ohio (the Village), 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 statement is 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. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to generally accepted accounting principles would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e major) funds separately for 2004. While the Village does not follow generally accepted accounting principles, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new generally accepted accounting principles presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use generally accepted accounting principles 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-generally accepted accounting principles basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United

CERTIFIED PUBLIC ACCOUNTANTS

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States of America, the financial position of the Village as of December 31, 2004, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above presents fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village, as of December 31, 2004 and 2003, and its combined cash receipts and cash disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revisions to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 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 30, 2005 on our consideration of the Village'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, consisting of the letters 'C', 'S', and 'A' in a stylized, cursive font.

December 30, 2005

VILLAGE OF WAYNESVILLE

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

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property tax and other local taxes	\$ 125,664	\$ 449,514	\$ -	\$ 575,178
Special assessments	-	-	2,499	2,499
Intergovernmental receipts	76,732	27,587	-	104,319
Licenses, permits, fees and other	90,464	23,644	-	114,108
Earnings on investments	7,636	236	-	7,872
Miscellaneous	31,450	9,825	-	41,275
Total cash receipts	331,946	510,806	2,499	845,251
Cash Disbursements:				
Current:				
Security of persons and property	29,020	270,430	-	299,450
Public health services	1,130	-	-	1,130
Community environment	29,084	-	-	29,084
Leisure time activities	-	4,169	-	4,169
Transportation	-	302,585	-	302,585
General government	272,467	-	-	272,467
Debt service:				
Principal payments	-	-	1,796	1,796
Interest payments	23,000	-	608	23,608
Total cash disbursements	354,701	577,184	2,404	934,289
Total cash receipts over (under) cash disbursements	(22,755)	(66,378)	95	(89,038)
Other Financing Receipts (Disbursements):				
Proceeds from sale of notes	-	75,000	-	75,000
Total other financing receipts	-	75,000	-	75,000
Excess of cash receipts and other financing receipts over (under) cash disbursements and other financing disbursements	(22,755)	8,622	95	(14,038)
Fund cash balances, January 1	28,492	46,049	(1,615)	72,926
Fund cash balances, December 31	\$ 5,737	\$ 54,671	\$ (1,520)	\$ 58,888
Reserves for encumbrances, December 31	\$ -	628	-	628

See accompanying notes and report of independent accountants.

VILLAGE OF WAYNESVILLE

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

	Proprietary Fund Types		Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise		Agency	
Operating Cash Receipts:				
Charges for services	\$ 1,316,522	\$ -	\$ -	\$ 1,316,522
Miscellaneous	1,450	-	-	1,450
Total operating cash receipts	1,317,972	-	-	1,317,972
Operating Cash Disbursements:				
Personal services	392,837	-	-	392,837
Fringe benefits	100	-	-	100
Contractual services	391,736	-	-	391,736
Supplies and materials	82,725	-	-	82,725
Capital outlay	53,854	-	-	53,854
Total operating cash disbursements	921,252	-	-	921,252
Operating income	396,720	-	-	396,720
Non-Operating Cash Receipts:				
Other non-operating receipts	13,932	99,841	-	113,773
Total non-operating cash receipts	13,932	99,841	-	113,773
Non-Operating Cash Disbursements:				
Debt service:				
Principal payments	190,683	-	-	190,683
Interest payments	195,345	-	-	195,345
Other non-operating cash disbursements	-	98,961	-	98,961
Total non-operating cash disbursements	386,028	98,961	-	484,989
Net receipts over disbursements	24,624	880	-	25,504
Fund cash balances, January 1	386,711	6,292	-	393,003
Fund cash balances, December 31	\$ 411,335	\$ 7,172	\$ -	\$ 418,507
Reserves for encumbrances, December 31	\$ 383	\$ -	\$ -	\$ 383

See accompanying notes and report of independent accountants.

VILLAGE OF WAYNESVILLE

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

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts:					
Property tax and other local taxes	\$ 114,767	\$ 445,166	\$ -	\$ -	\$ 559,933
Special assessments	-	-	4,694	-	4,694
Intergovernmental receipts	81,411	100,179	-	-	181,590
Licenses, permits, fees and other	73,497	23,491	-	-	96,988
Earnings on investments	23,066	709	-	-	23,775
Miscellaneous	17,969	6,343	-	-	24,312
Total cash receipts	<u>310,710</u>	<u>575,888</u>	<u>4,694</u>	<u>-</u>	<u>891,292</u>
Cash Disbursements:					
Current:					
Security of persons and property	28,877	290,999	-	-	319,876
Public health services	816	-	-	-	816
Community environment	46,469	-	-	-	46,469
Leisure time activities	-	22,748	-	-	22,748
Transportation	17,156	304,656	-	-	321,812
General government	300,924	-	-	-	300,924
Debt service:					
Principal payments	-	-	1,695	398,500	400,195
Interest payments	10,848	-	710	9,934	21,492
Capital outlay	-	-	-	885,707	885,707
Total cash disbursements	<u>405,090</u>	<u>618,403</u>	<u>2,405</u>	<u>1,294,141</u>	<u>2,320,039</u>
Total cash receipts over (under) cash disbursements	(94,380)	(42,515)	2,289	(1,294,141)	(1,428,747)
Other Financing Receipts (Disbursements):					
Proceeds from sale of notes	-	-	-	378,500	378,500
Total other financing receipts	<u>-</u>	<u>-</u>	<u>-</u>	<u>378,500</u>	<u>378,500</u>
Excess of cash receipts and other financing receipts over (under) cash disbursements and other financing disbursements	(94,380)	(42,515)	2,289	(915,641)	(1,050,247)
Fund cash balances, January 1	<u>122,872</u>	<u>88,564</u>	<u>(3,904)</u>	<u>915,641</u>	<u>1,123,173</u>
Fund cash balances, December 31	<u>\$ 28,492</u>	<u>\$ 46,049</u>	<u>\$ (1,615)</u>	<u>\$ -</u>	<u>\$ 72,926</u>
Reserves for encumbrances, December 31	<u>\$ -</u>	<u>80,084</u>	<u>-</u>	<u>-</u>	<u>80,084</u>

See accompanying notes and report of independent accountants.

VILLAGE OF WAYNESVILLE

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILIAR FIDUCIARY FUND TYPES
YEAR ENDED DECEMBER 31, 2003

	Proprietary Fund Types		Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency		
Operating Cash Receipts:				
Charges for services	\$ 1,287,878	\$ -	\$ -	\$ 1,287,878
Total operating cash receipts	1,287,878	-	-	1,287,878
Operating Cash Disbursements:				
Personal services	383,286	-	-	383,286
Fringe benefits	-	-	-	-
Contractual services	410,740	-	-	410,740
Supplies and materials	69,176	-	-	69,176
Capital outlay	390,000	-	-	390,000
Total operating cash disbursements	1,253,202	-	-	1,253,202
Operating income	34,676	-	-	34,676
Non-Operating Cash Receipts:				
Other non-operating receipts	13,773	81,957	-	95,730
Total non-operating cash receipts	13,773	81,957	-	95,730
Non-Operating Cash Disbursements:				
Debt service:				
Principal payments	222,734	-	-	222,734
Interest payments	178,637	-	-	178,637
Other non-operating cash disbursements	-	79,777	-	79,777
Total non-operating cash disbursements	401,371	79,777	-	481,148
Net receipts over (under) disbursements	(352,922)	2,180	-	(350,742)
Fund cash balances, January 1	739,633	4,112	-	743,745
Fund cash balances, December 31	\$ 386,711	\$ 6,292	\$ -	\$ 393,003
Reserves for encumbrances, December 31	\$ -	\$ -	\$ -	\$ -

See accompanying notes and report of independent accountants.

VILLAGE OF WAYNESVILLE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. Summary of Significant Accounting Policies

A. Description of the Entity

The Village of Waynesville, Warren 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. The Village is directed by a publicly-elected six-member Council. The Village provides water and sewer 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 Deposits

During the fiscal years 2004 and 2003, the Village funds were in an interest bearing checking account.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted 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:

Police Levy Fund

This fund receives special levy tax money for police protection.

3. Debt Service Fund -

This fund is used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant debt service fund:

Sidewalk Assessment Fund

This fund receives monies and makes payments related to the sidewalk assessment notes.

4. Capital Project Fund -

These funds are 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 significant capital projects funds:

Capital Project Fund

This fund is used to construct a new municipal building. This fund was closed during 2003.

5. Enterprise Funds -

These funds account for operations that are similar to private business enterprises where management intends that 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.

6. Fiduciary Funds (Agency Funds) -

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village has the following significant fiduciary fund:

Mayor's Court

This fund collects and distributes court fines to the Village and the State. The open items at the end of the period make up the fund balance.

E. Budgetary Process

The Ohio Revised Code requires the Village to budget annually.

a. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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.

b. 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.

c. 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 reappropriated. The Village did not encumber all commitments required by Ohio law. However, there are no material unrecorded encumbrances at December 31, 2004 and 2003.

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 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.

2. Equity in Pooled Cash and Investments

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

	<u>2004</u>	<u>2003</u>
Demand deposits	\$ 403,715	\$ 299,159
Merrill Lynch – Government Fund	11,094	11,056
Certificates of Deposit	33,017	152,882
Morgan Stanley - Money market mutual fund	27,403	694
STAR Ohio	<u>2,166</u>	<u>2,138</u>
	\$ <u>477,395</u>	\$ <u>465,929</u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

3. Budgetary Activity

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

2004 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 319,446	\$ 331,946	\$ 12,500
Special Revenue	500,237	585,806	85,569
Debt Service	17,405	2,499	(14,906)
Enterprise	<u>1,134,111</u>	<u>1,331,904</u>	<u>197,793</u>
Total	\$ <u>1,971,199</u>	\$ <u>2,252,155</u>	\$ <u>280,956</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 388,158	\$ 354,701	\$ 33,457
Special Revenue	739,054	577,812	161,242
Debt Service	5,000	2,404	2,596
Enterprise	<u>1,471,200</u>	<u>1,307,663</u>	<u>163,537</u>
Total	\$ <u>2,603,412</u>	\$ <u>2,242,580</u>	\$ <u>360,832</u>

2003 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 359,885	\$ 310,710	\$ 49,175
Special Revenue	1,426,825	575,888	850,937
Debt Service	22,722	4,694	18,028
Capital Projects	106,900	378,500	(271,600)
Enterprise	<u>1,030,370</u>	<u>1,301,651</u>	<u>(271,281)</u>
Total	\$ <u>2,946,702</u>	\$ <u>2,571,443</u>	\$ <u>375,259</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 419,107	\$ 405,090	\$ 14,017
Special Revenue	1,005,792	698,487	307,305
Debt Service	18,818	2,405	16,413
Capital Projects	1,022,541	1,294,141	(271,600)
Enterprise	<u>1,637,428</u>	<u>1,654,573</u>	<u>(17,145)</u>
Total	\$ <u>4,103,686</u>	\$ <u>4,054,696</u>	\$ <u>48,990</u>

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. 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.

5. Debt

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA Well Field Loan #3984	\$ 196,587	5.01%
OPWC WWTP Improvements	336,040	0.00%
OWDA WWTP Loan #2566	3,252,652	2.50%
OWDA Water Tower Loan #3235	431,289	6.41%
Land Acquisition Notes	376,000	2.30%
Special Assessment Bonds	8,331	6.00%
Police Tax Anticipation Notes	75,000	3.50%
Government Center Bonds	<u>1,248,000</u>	5.75%
Total	\$ <u>5,923,899</u>	

The Ohio Water Development Authority (OWDA) Well Field Loan #3984 was processed by OWDA on December 18, 2003. The loan carries interest of 5.01% with interest and principal payments due in semiannual installments. The loan matures in 2029.

The OPWC (Ohio Public Works Commission) WWTP Improvements loan was issued in 1988 in the amount of \$433,600 for wastewater treatment plant improvements. The loan is repaid in semiannual installments of \$10,840 over 20 years.

The OWDA WWTP Loan #2566 was issued from 2000 through 2002 to finance wastewater treatment plant improvements. The loan is repaid in semiannual installments of \$123,175, including interest, over 20 years. The loan is collateralized by the Village's agreement to maintain revenues to cover debt service requirements.

The OWDA Water Tower Loan #3235 was issued in 2001 to build a new water tower. The loan is to be repaid in annual installments of \$38,372, including interest, over 25 years.

The Land Acquisition and Special Assessment Bonds have the full faith, credit and revenue irrevocably pledged for the prompt payment of principal and interest.

The Special Assessment Bonds relate to special assessment sidewalk improvements. These bonds were issued in 1998 and will be repaid in semiannual installments.

The Police Tax Anticipation Notes relate to the Police Levy Fund. The notes mature on September 1, 2009.

The Government Center Bonds were issued to pay for construction of the Village Government Center. These bonds were issued in 2002 in the amount of \$1,250,000.

Amortization of debt and the related payments, including interest, is scheduled as follows:

Year ending December 31:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$660,118	\$52,776	\$712,894
2006	215,352	77,065	292,417
2007	222,753	76,453	299,206
2008	230,332	75,715	306,047
2009	235,685	74,849	310,534
2010 – 2014	1,307,329	358,442	1,665,771
2015 – 2019	1,556,306	317,089	1,873,395
2020 – 2024	734,347	248,708	983,055
2025 – 2029	492,677	143,655	636,332
2030 – 2032	<u>269,000</u>	<u>21,782</u>	<u>290,782</u>
Total	<u>\$5,923,899</u>	<u>\$1,446,534</u>	<u>\$7,370,433</u>

6. Retirement Systems

Village employees have elected to 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.

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, OPERS member employees contributed 8.50% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries through December 31, 2004 and 2003. The Village has paid all contributions required through December 31, 2004 and 2003.

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). OP&F is a cost-sharing, multiple-employer plan. This plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, OP&F participants contributed 10% of their gross salaries. The Village contributed an amount equal to 19.50% of participants' gross salaries for the years ended December 31, 2004 and 2003. The Village has paid all contributions required through December 31, 2004.

7. Risk Management

The Village has obtained commercial insurance for the following risks:

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

8. Contingent Liabilities

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

**INDEPENDENT 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**



To the Village Council
Village of Waynesville

We have audited the accompanying financial statements of the Village of Waynesville, Warren County, Ohio (the Village), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated December 30, 2005, wherein we noted that the Village prepared its financial statements using accounting principles the Auditor of State established 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to initiate, record, process, and report financial data consistent with the assertion's of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items #2004-001 and #2004-002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items #2004-001 and #2004-002 to be material weaknesses.

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 Our provisions of laws, regulations, contracts and grants, and grant agreements,

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noncompliance with which could have a direct and material effect on the determination of financial statements 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 instances of noncompliance or other matters that are required to be reported under *Government Audit Standards* and which are described in the accompanying schedule of findings and responses as items #2004-003, #2004-004 and #2004-005.

We also noted certain additional matters that we reported to management of the Village in a separate letter dated December 30, 2005.

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

A handwritten signature in black ink, consisting of the letters 'C', 'S', and 'A' in a cursive, stylized font.

December 30, 2005

VILLAGE OF WAYNESVILLE

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004 - 001

Criteria:

The Village should have a proper segregation of duties (cash disbursements, payroll, general ledger and bank reconciliations).

Condition, Causes & Recommendation:

Due to the limited number of people working in the office, many critical duties are combined and given to the available employees. During our testing of cash disbursements, we noted that the same individual prepared and signed checks, reconciled bank accounts, performed all payroll duties and maintained the general ledger. To the extent possible, segregate duties to serve as a check and balance on employees' integrity and to maintain the best control system as possible. In general, segregation of duties is always improved when the following procedures are followed:

- Different employees should perform the separate duties of signing checks, processing cash receipts and cash disbursements, and maintaining books of original entry.
- Segregate bank account reconciliation duties from cash receipts and/or cash disbursements duties.

Effect:

Without proper segregation of duties, there is a higher risk of fraudulent activity and / or material misstatements to the financial position of the Village.

Management Response:

We concur with the comments and recommendations. The Village is currently addressing the issues listed.

FINDING NUMBER 2004 - 002

Criteria:

The Village needs to ensure that bank reconciliations are performed in a timely and accurate manner. A proper segregation of duties needs to be maintained for this process.

Condition, Causes & Recommendations:

Bank Reconciliations

Our audit testing revealed numerous problems in the area of cash could be avoided if the following procedures were adopted:

- All bank accounts should be reconciled monthly in a timely manner.
- Reconciliations should be prepared using the bank balance and the balance per the general ledger instead of to a cash book balance.
- A policy for the write-off of old outstanding checks should be initiated.

Reconciling Statements Regularly

During the audit, we noted that bank statements for the Village's various accounts were not always reconciled to the general ledger. Most of the problems encountered within the area of cash can be avoided if a proper system of checks and balances is incorporated into the company's procedures. We recommend that all of the bank accounts be reconciled monthly to the general ledger.

Reconciliations: Investigate Differences Timely

During our test of the Village's bank reconciliations, we noted a number of reconciling items. Reconciling items should be researched promptly so that corrective action may be taken, where necessary, to dispose of them. This process will substantially increase control over cash. We suggest that bank accounts be reconciled and all differences between book and bank balances be investigated on a timely basis by appropriate accounting personnel so that errors and adjustment can be quickly identified and corrected.

Bank Reconciliation Approval

Currently, bank reconciliations are performed by employees who also prepare and sign checks, perform all payroll duties and maintain the general ledger. The bank reconciliations are not reviewed by an independent employee. This provides an ineffective system of cash control, because it permits the possibility of fraudulent activities due to the lack of an adequate segregation of duties. An employee independent (the Village Manager and / or Mayor) of cash receipt and disbursement activities should review the bank reconciliations for any unusual items and document their approval by initialing the form. This will significantly improve the system of checks and balances necessary for strong cash control.

Effect:

Without timely and accurate bank reconciliations, there is a higher risk of fraudulent activity and / or material misstatements to the financial position of the Village.

Management Response:

We concur with the comments and recommendations. The Village is currently addressing the issues listed.

FINDING NUMBER 2004-003

Noncompliance Citation

Ohio Rev. Code, Section 5705.41 (D), states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same...has been lawfully appropriated fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirements:

- A. Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Village Council, if such expenditure is otherwise valid.

Where a continuing contract is to be performed in whole or in part in ensuring fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

Contrary to the above requirement, prior certification was not obtained for a significant amount of 2003 and 2004 vouchers reviewed and neither of the two exceptions provided for above were utilized. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash fund balances. Therefore, we recommend the Village obtain approved purchase orders, which contain the Finance Director's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING NUMBER 2004-004

Noncompliance Citation

Ohio Rev. Code, Section 5705.10, requires that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The following funds had negative fund balances:

<u>Fund</u>	<u>2004</u>	<u>2003</u>
Police Levy Fund (B20)	\$ (754)	\$ (49,625)
Historic Preservation Grant Fund (B80)	(2,402)	(8,001)
Sidewalk Assessment Fund (H20)	(1,520)	(1,615)

We recommend that the Finance Director monitor the balances monthly and make adjustments as needed.

FINDING NUMBER 2004-005

Noncompliance Citation

Ohio Rev. Code, Section 5705.39, requires that the total appropriations from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate of amended official estimate. During the year end testing, appropriations exceeded estimated resources in the following funds and amounts:

<u>2004</u>			
<u>Fund</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Variance</u>
General Fund (A01)	\$ 388,158	\$ 347,938	\$ (40,220)
Street Maintenance and Repair Fund (B01)	91,350	87,497	(3,853)
Village Add on MVL Tax Fund (B10)	24,346	23,798	(548)
Drug Enforcement and Education Fund (B13)	2,827	1,027	(1,800)
Police Levy Fund (B20)	277,925	240,000	(37,925)
Street Levy Fund (B30)	140,792	75,097	(65,697)
Permissive Tax Fund (B40)	30,242	15,500	(14,742)

<u>2003</u>			
<u>Fund</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Variances</u>
Street Maintenance and Repair Fund (B01)	\$ 116,575	\$ 106,982	\$ (9,593)
State Highway Improvement Fund (B02)	11,814	9,952	(1,862)
Parks and Recreation Fund (B04)	18,040	15,337	(2,703)
Village Add on MVL Tax Fund (B10)	24,470	23,989	(481)
Police Levy Fund (B20)	227,638	220,922	(6,716)
Street Levy Fund (B30)	117,753	110,157	(7,596)
Permissive Tax Fund (B40)	30,300	15,500	(14,800)
Community Celebration Fund (B93)	5,356	5,000	(356)

**VILLAGE OF WAYNESVILLE
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid</u>
2002-001	Noncompliance – failure to properly certify availability of funds.	No	Repeated
2002-002	Negative Fund Balances	No	Repeated
2002-003	Appropriations Exceed Total Estimated Revenue	No	Repeated
2002-004	Accurate Statements of All Moneys Received and Expended	Yes	-



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VILLAGE OF WAYNESVILLE

WARREN 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 28, 2006**