

**VILLAGE OF SOUTH CHARLESTON, OHIO
CLARK COUNTY**

Financial Statements – Cash Basis

December 31, 2005 and 2004

with

Independent Auditors' Report



**Auditor of State
Betty Montgomery**

Members of Council
Village of South Charleston
35 South Chillicothe Street
PO Box X
South Charleston, Ohio 45368

We have reviewed the *Independent Auditors' Report* of the Village of South Charleston, Clark County, prepared by Clark, Schaefer, Hackett & Co. for the audit period January 1, 2004 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State'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 Auditors' 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 Auditors' 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 South Charleston is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 11, 2006

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**VILLAGE OF SOUTH CHARLESTON, OHIO
CLARK COUNTY**

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
www.cshco.com

Independent Auditors' Report

Village Commission
Village of South Charleston, Ohio
Clark County
P.O. Box X
South Charleston, Ohio 45368

We have audited the accompanying financial statements of the Village of South Charleston, Ohio (the Village) as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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 GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the third following paragraph.

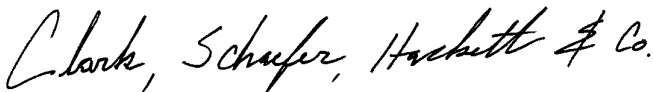
We were unable to obtain sufficient evidential matter supporting the amount reported as charges for services for the proprietary fund type in the amount of \$404,172, for the year ended December 31, 2004. In addition, we were unable to determine the validity of the amount reported through alternative procedures.

In our opinion, because of the effects of the matter discussed in the preceding three paragraphs, 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 as of December 31, 2005 and 2004, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, except for the effect of such adjustment, if any, as might have been determined to be necessary had we been able to determine the validity of the amounts reported as utility revenue for 2004, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2004 and 2005. 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 no required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006, 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, 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 assessing the results of our audit.



Springfield, Ohio
August 25, 2006

**VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 77,822	\$ 26,268	\$ 104,090
Municipal Income Tax	352,547	-	352,547
Intergovernmental Receipts	68,805	85,165	153,970
Charges for Services	320	15,514	15,834
Fines, Licenses, and Permits	51,905	1,732	53,637
Earnings on Investments	358	255	613
Contributions	30,300	-	30,300
Miscellaneous	30,797	5,399	36,196
	<u>612,854</u>	<u>134,333</u>	<u>747,187</u>
Total Cash Receipts			
	<u>612,854</u>	<u>134,333</u>	<u>747,187</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	158,488	-	158,488
Public Health Services	-	39,426	39,426
Transportation	-	71,258	71,258
General Government	386,292	248	386,540
Capital Outlay	26,548	28,106	54,654
	<u>26,548</u>	<u>28,106</u>	<u>54,654</u>
Total Cash Disbursements	<u>571,328</u>	<u>139,038</u>	<u>710,366</u>
	<u>571,328</u>	<u>139,038</u>	<u>710,366</u>
Total Receipts Over/(Under) Disbursements	<u>41,526</u>	<u>(4,705)</u>	<u>36,821</u>
	<u>41,526</u>	<u>(4,705)</u>	<u>36,821</u>
Other Financing Receipts and (Disbursements):			
Other Financing Uses	(7,144)	(2,719)	(9,863)
	<u>(7,144)</u>	<u>(2,719)</u>	<u>(9,863)</u>
Total Other Financing Receipts/(Disbursements)	<u>(7,144)</u>	<u>(2,719)</u>	<u>(9,863)</u>
	<u>(7,144)</u>	<u>(2,719)</u>	<u>(9,863)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	34,382	(7,424)	26,958
	<u>34,382</u>	<u>(7,424)</u>	<u>26,958</u>
Fund Cash Balances, January 1	25,229	83,782	109,011
	<u>25,229</u>	<u>83,782</u>	<u>109,011</u>
Fund Cash Balances, December 31	<u><u>\$ 59,611</u></u>	<u><u>\$ 76,358</u></u>	<u><u>\$ 135,969</u></u>

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

**VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY**

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

	Proprietary Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$ 459,296	\$ -	\$ -	\$ 459,296
Court Fines & Costs	-	-	46,375	46,375
Earnings on Investments	-	142	-	142
Total Operating Cash Receipts	459,296	142	46,375	505,813
Operating Cash Disbursements:				
Personal Services	68,301	-	-	68,301
Fringe Benefits	14,488	-	-	14,488
Contractual Services	86,094	-	-	86,094
Supplies and Materials	16,471	-	-	16,471
Other	2,752	-	-	2,752
Distribution of Court Fines	-	-	46,375	46,375
Capital Outlay	18,260	-	-	18,260
Total Operating Cash Disbursements	206,366	-	46,375	252,741
Operating Income/(Loss)	252,930	142	-	253,072
Non-Operating Cash Receipts:				
Earnings on Investments	167	-	-	167
Total Non-Operating Cash Receipts	167	-	-	167
Non-Operating Cash Disbursements:				
Redemption of Principal	136,834	-	-	136,834
Interest and Other Fiscal Charges	78,487	-	-	78,487
Total Non-Operating Cash Disbursements	215,321	-	-	215,321
Net Receipts Over/(Under) Disbursements	37,776	142	-	37,918
Fund Cash Balances, January 1	168,012	34,613	-	202,625
Fund Cash Balances, December 31	\$ 205,788	\$ 34,755	\$ -	\$ 240,543

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

**VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 75,934	\$ 26,791	\$ 102,725
Municipal Income Tax	355,664	-	355,664
Intergovernmental Receipts	107,937	85,612	193,549
Charges for Services	-	11,275	11,275
Fines, Licenses, and Permits	62,315	336	62,651
Earnings on Investments	367	260	627
Contributions	8,026	-	8,026
Miscellaneous	4,285	14	4,299
	<u>614,528</u>	<u>124,288</u>	<u>738,816</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	150,390	8,257	158,647
Public Health Services	-	44,578	44,578
Transportation	-	33,131	33,131
General Government	399,242	-	399,242
Capital Outlay	46,357	34,241	80,598
	<u>595,989</u>	<u>120,207</u>	<u>716,196</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	<u>18,539</u>	<u>4,081</u>	<u>22,620</u>
Other Financing Receipts and (Disbursements):			
Other Financing Uses	<u>(7,053)</u>	<u>-</u>	<u>(7,053)</u>
Total Other Financing Receipts/(Disbursements)	<u>(7,053)</u>	<u>-</u>	<u>(7,053)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	11,486	4,081	15,567
Fund Cash Balances, January 1	<u>13,743</u>	<u>79,701</u>	<u>93,444</u>
Fund Cash Balances, December 31	<u><u>\$ 25,229</u></u>	<u><u>\$ 83,782</u></u>	<u><u>\$ 109,011</u></u>

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

**VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY**

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

	Proprietary Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$ 404,172	\$ -	\$ -	\$ 404,172
Court Fines & Costs	-	-	55,641	55,641
Earnings on Investments	-	154	-	154
Total Operating Cash Receipts	<u>404,172</u>	<u>154</u>	<u>55,641</u>	<u>459,967</u>
Operating Cash Disbursements:				
Personal Services	61,785	-	-	61,785
Fringe Benefits	13,106	-	-	13,106
Contractual Services	100,685	-	-	100,685
Supplies and Materials	25,943	-	-	25,943
Other	2,521	-	-	2,521
Distribution of Court Fines	-	-	55,641	55,641
Capital Outlay	78,521	-	-	78,521
Total Operating Cash Disbursements	<u>282,561</u>	<u>-</u>	<u>55,641</u>	<u>338,202</u>
Operating Income/(Loss)	<u>121,611</u>	<u>154</u>	<u>-</u>	<u>121,765</u>
Non-Operating Cash Receipts:				
Intergovernmental Receipts	372	-	-	372
Loan Proceeds	63,742	-	-	63,742
Earnings on Investments	63	-	-	63
Total Non-Operating Cash Receipts	<u>64,177</u>	<u>-</u>	<u>-</u>	<u>64,177</u>
Non-Operating Cash Disbursements:				
Redemption of Principal	132,188	-	-	132,188
Interest and Other Fiscal Charges	82,941	-	-	82,941
Total Non-Operating Cash Disbursements	<u>215,129</u>	<u>-</u>	<u>-</u>	<u>215,129</u>
Net Receipts Over/(Under) Disbursements	<u>(29,341)</u>	<u>154</u>	<u>-</u>	<u>(29,187)</u>
Fund Cash Balances, January 1	<u>197,353</u>	<u>34,459</u>	<u>-</u>	<u>231,812</u>
Fund Cash Balances, December 31	<u>\$ 168,012</u>	<u>\$ 34,613</u>	<u>\$ -</u>	<u>\$ 202,625</u>

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

VILLAGE OF SOUTH CHARLESTON, OHIO, CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Description of the Entity

The Village of South Charleston, Clark County (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. Pursuant to the provisions of Article XVIII of the Constitution of Ohio, the voters of the Village adopted a charter for the government of the Village on October 16, 1917. The Village is directed by a publicly-elected three-member Commission. The Village provides general governmental services, including water and sewer utilities, and police services.

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

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.

Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit and U.S. Savings Bonds are valued at cost.

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:

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.

Special Revenue Fund – 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 Funds:

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 SOUTH CHARLESTON, OHIO, CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Enterprise Funds – These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

Water Fund – This fund receives charges for services from residents to cover the cost of providing this utility. This fund receives loan proceeds from the Ohio Water Development Authority to finance a utility plant expansion. This loan will be repaid from a utility surcharge, also accounted for in this fund.

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

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:

Cemetery Bequest Fund (Trust Fund) – This is a nonexpendable trust fund. Amounts donated are maintained in perpetuity. Investment earnings are used for grave upkeep as specified by the donor.

Mayor's Court Fund (Agency Fund) – This fund receives court fines assessed by the Village Magistrate. These funds are distributed to the appropriate government on a monthly basis.

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

Appropriations – Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Commission 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.

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.

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.

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

VILLAGE OF SOUTH CHARLESTON, OHIO, CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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.

NOTE 2 – EQUITY IN POOLED CASH AND INVESTMENTS:

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

	2005	2004
Demand deposits	\$ 374,012	309,136
Certificates of deposit	1,000	1,000
Total deposits	375,012	310,136
U.S. Savings Bonds	1,500	1,500
Total deposits and investments	\$ 376,512	311,636

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

NOTE 3 – BUDGETARY ACTIVITY:

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

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted	Actual	Variance
	Receipts	Receipts	
General	\$ 735,846	612,854	(122,992)
Special Revenue	138,717	134,333	(4,384)
Enterprise	487,900	459,463	(28,437)
Non Expendable Trust	700	142	(558)
Total	\$ 1,363,163	1,206,792	(156,371)

VILLAGE OF SOUTH CHARLESTON, OHIO, CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004

NOTE 3 – BUDGETARY ACTIVITY (Continued):

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 735,900	578,472	157,428
Special Revenue	206,189	141,757	64,432
Enterprise	531,216	421,687	109,529
Non Expendable Trust	-	-	-
Total	\$ 1,473,305	1,141,916	331,389

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 648,738	614,528	(34,210)
Special Revenue	190,596	124,287	(66,309)
Enterprise	628,889	468,348	(160,541)
Non Expendable Trust	109	154	45
Total	\$ 1,468,332	1,207,317	(261,015)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 741,144	603,042	138,102
Special Revenue	260,392	120,207	140,185
Enterprise	635,086	497,690	137,396
Non Expendable Trust	-	-	-
Total	\$ 1,636,622	1,220,939	415,683

Contrary to Ohio law, certain expenditure obligations were not properly encumbered.

NOTE 4 – PROPERTY TAX:

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Commission. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

VILLAGE OF SOUTH CHARLESTON, OHIO, CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004

NOTE 4 – PROPERTY TAX (Continued):

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.

NOTE 5 – LOCAL INCOME TAX:

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

NOTE 6 – DEBT:

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan - #1896/0979	\$ 526,303	7.59%
Ohio Water Development Authority Loan - #3450/0279	50,081	2.00%
Ohio Water Development Authority Loan - #3454/143DW	1,569,870	2.00%
Ohio Water Development Authority Loan - #3941	56,773	2.00%
Ohio Water Development Authority Loan - #3573/CA	69,383	2.00%
	\$ 2,272,410	

The Ohio Water Development Authority (OWDA) loan #1896/0979 relates to a sewer plant expansion project; loan #3450/0279 relates to water tower painting project; loan #3454/143DW relates to a new well field and water system upgrade project; and loan #3941 relates to a new waste water treatment plant pump station. The loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

VILLAGE OF SOUTH CHARLESTON, OHIO, CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004

NOTE 6 – DEBT (Continued):

Annual debt service requirements to maturity for the OWDA loans are as follows:

Year Ending 12/31	Principal	Interest	Total
2006	\$ 127,345	\$ 55,160	\$ 182,505
2007	134,382	68,098	202,480
2008	139,657	62,823	202,480
2009	145,233	57,247	202,480
2010	151,132	51,348	202,480
2011-2015	774,265	155,315	929,580
2016-2020	549,477	48,825	598,302
2021-2023	181,536	3,815	185,351
Total	<u>\$ 2,203,027</u>	<u>\$ 502,631</u>	<u>\$ 2,705,658</u>

The debt service schedule above does not include loan #3573/CA as the amortization schedule was not available as of December 31, 2005 for this particular loan as the project had not yet been completed and the repayment schedule is not established until completion.

NOTE 7 – RETIRMENT SYSTEMS:

The Village’s law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These 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 2005 and 2004, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS 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, 2005.

VILLAGE OF SOUTH CHARLESTON, OHIO, CLARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004

NOTE 8 – RISK MANAGEMENT:

Risk Pool Membership

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

Casualty Coverage

PEP retains up to \$250,000 per claim, including loss adjustment expenses. PEP makes an annual contribution to APEEP. APEEP reinsures casualty claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. If losses exhaust PEP's net assets, APEEP covers PEP's retained casualty risk up to \$10,000,000 per year, subject to a per-claim limit of \$2,000,000. Local political subdivisions can elect additional coverage, up to a total limit of \$12,000,000 from the General Reinsurance Corporation.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 in any one occurrence. APEEP reinsures property losses that are greater than \$100,000 up to \$250,000 per occurrence. The Travelers Indemnity Company reinsures losses exceeding \$250,000 up to \$600,000,000 per occurrence.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net assets at December 31, 2005 and 2004 (the latest information available)

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$29,719,675	\$27,437,169
Liabilities	<u>(15,994,168)</u>	<u>(13,880,038)</u>
Net assets	<u>\$13,725,507</u>	<u>\$13,557,131</u>
<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$4,443,332	\$3,648,272
Liabilities	<u>(1,068,246)</u>	<u>(540,073)</u>
Net assets	<u>\$3,375,086</u>	<u>\$3,108,199</u>



Clark, Schaefer, Hackett & Co.
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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

Village Commission
Village of South Charleston, Ohio
Clark County
P.O. Box X
South Charleston, Ohio 45368

We have audited the financial statements of the Village of South Charleston, Ohio (the Village), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated August 25, 2006, in which it was noted the Village prepared its financial statements on a cash accounting basis, which is a basis other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. 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 record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-001 and 2005-002.

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 2005-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance and other matters with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of the Village in a separate letter dated August 25, 2006.

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
August 25, 2006

VILLAGE OF SOUTH CHARLESTON, OHIO
CLARK COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005

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

FINDING NUMBER 2005-001

Material Weakness - Utility Revenues

For the year ended December 31, 2004, the village computer contained a utility software program which had not been accurate and the reports generated from the system were not saved. In addition, there was no master file showing payments by individual or businesses or a master listing of utility customers (i.e., the client should be able to provide a master listing of the accounts at any point in time along with any additions and deletions taking place during the year, by date). Also, there were no other subsidiary records maintained to track the timing and extent of collections, however the condition was subsequently corrected for the year ended December 31, 2005. The absence of a system to show complete, accurate and timely transactions taking place through the utility collection process could lead to errors or irregularities occurring without detection in the normal course of business on a timely basis for the year ended December 31, 2004.

Management Response to Finding Number 2005-001:

Late in 2004, the Village introduced a new utility billing software system to address the need for better utility billing and reporting. This improved software system enabled us to produce a wider variety of billing records with improved overall accuracy for 2005. The previous software was inadequate, did not meet our needs as a small but progressive village utility, and was incompatible with the remote, hand-held meter reading hardware and software we struggled to implement. The introduction of the present software has yielded far better results and the support that the company provides has been outstanding.

FINDING NUMBER 2005-002

Reportable Condition - Bank Reconciliations

The Village was unable to reconcile the general depository account at year ended December 31, 2004; however, this condition was corrected for the year ended December 31, 2005. The failure to accurately reconcile accounts at December 31, 2004 could result in errors and discrepancies being undetected. The Village should continue to improve the month end reconciliation procedures.

Management Response to Finding Number 2005-002:

In the third quarter of 2006, the Village introduced on-line banking with Security National Bank, thus enabling the Village to check account balances and reconcile accounts daily, if necessary. Further, the Village moved cash assets into liquid, interest bearing money market accounts that will generate greater source of earned income while allowing a timely transfer of funds to accounts for purposes of paying bills.

**VILLAGE OF SOUTH CHARLESTON, OHIO
CLARK COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Explanation of Correction
2003-001	Incomplete reconciliations, inaccurate financial reports, and lack of adequate records	No	Partially corrected; see management letter.
2003-002	ORC Sec. 5705.10 – Improper allocation of revenues	Yes	Corrected during current audit period
2003-003	ORC Sec. 1905.02 – Failure to establish a separate fund for the Computer court fees	Yes	Proper fund established during the during audit period.
2003-004	Section 29 of the Village Charter – Failure to properly encumber	Yes	Corrected during current audit period.
2003-005	Absence of system to show complete, accurate and timely transactions taking place through the utility collection process	No	See finding number 2005-001
2003-006	Inaccurate receipting process for income tax revenues	Yes	Receipt process for income tax corrected during audit period.
2003-007	Incomplete and timely bank reconciliations	No	See finding number 2005-002



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VILLAGE OF SOUTH CHARLESTON

CLARK 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
DECEMBER 21, 2006**