



Dave Yost • Auditor of State

VILLAGE OF ZALESKI
VINTON COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Zaleski
Vinton County
P.O. Box 176
Zaleski, Ohio 45698

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Zaleski, Vinton County, Ohio (the Village), as of and for the years ended December 31, 2016 and 2015.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Government's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Government's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the 2016 financial statements and Note 1 of the 2015 financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2016 and 2015, and the respective changes in financial position thereof for the years then ended.

Basis for Qualified Opinion on Regulatory Cash Basis

Disbursements for the year ended December 31, 2016 are reported as \$104,543 in the Special Revenue and \$550,700 in the Enterprise Funds. Disbursements for the year ended December 31, 2015 are reported as \$18,074 in the General Fund; \$92,754 in the Special Revenue; and \$1,460,765 in the Enterprise Funds. As described in Finding 2016-001 in the accompanying Schedule of Findings, the Village did not maintain supporting documentation for 22% of Special Revenue and 7% of Enterprise Fund disbursements reported in 2016 and 9% of General Fund, 10% of Special Revenue, and 11% of Enterprise Fund disbursements reported in 2015. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Opinion on Regulatory Basis of Accounting

In our opinion, expect for the possible effects of the matter described in the *Basis for Qualified Opinion on Regulatory Cash Basis* paragraph, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts, and disbursements by fund type, and related notes of the Village of Zaleski, Vinton County, Ohio as of December 31, 2016 and 2015 in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit, described in Note 2 of the 2016 financial statements and Note 1 of the 2015 financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2018, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

May 23, 2018

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Village of Zaleski, Ohio*Vinton County**Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)**All Governmental Fund Types**For the Year Ended December 31, 2016*

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$4,140	\$22,718	\$26,858
Intergovernmental	16,168	46,428	62,596
Charges for Services	0	7,375	7,375
Earnings on Investments	190	7	197
Miscellaneous	1,181	11,577	12,758
<i>Total Cash Receipts</i>	<u>21,679</u>	<u>88,105</u>	<u>109,784</u>
Cash Disbursements			
Current:			
Security of Persons and Property	0	48,015	48,015
Leisure Time Activities	0	3,439	3,439
Basic Utility Services	2,800	0	2,800
Transportation	0	46,889	46,889
General Government	18,255	6,200	24,455
<i>Total Cash Disbursements</i>	<u>21,055</u>	<u>104,543</u>	<u>125,598</u>
<i>Net Change in Fund Cash Balances</i>	624	(16,438)	(15,814)
<i>Fund Cash Balances, January 1</i>	<u>7,664</u>	<u>170,122</u>	<u>177,786</u>
Fund Cash Balances, December 31			
Restricted	0	153,684	153,684
Assigned	7,029	0	7,029
Unassigned (Deficit)	1,259	0	1,259
<i>Fund Cash Balances, December 31</i>	<u>\$8,288</u>	<u>\$153,684</u>	<u>\$161,972</u>

See accompanying notes to the basic financial statements

Village of Zaleski, Ohio
Vinton County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
Proprietary Fund Type
For the Year Ended December 31, 2016

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts	
Charges for Services	\$135,398
Miscellaneous	6,135
<i>Total Operating Cash Receipts</i>	<u>141,533</u>
Operating Cash Disbursements	
Personal Services	59,499
Contractual Services	10,734
Supplies and Materials	37,793
<i>Total Operating Cash Disbursements</i>	<u>108,026</u>
<i>Operating Income (Loss)</i>	<u>33,507</u>
Non-Operating Receipts (Disbursements)	
Intergovernmental	105,358
Earnings on Investments (proprietary funds only)	117
Other Debt Proceeds	296,933
Capital Outlay	(301,937)
Principal Retirement	(135,138)
Interest and Other Fiscal Charges	(2,909)
Other Financing Uses	(2,690)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(40,266)</u>
<i>Income (Loss) before Capital Contributions, Special Item, Extraordinary Item, Transfers and Advances</i>	(6,759)
Transfers In	4,998
Transfers Out	(4,998)
<i>Net Change in Fund Cash Balances</i>	(6,759)
<i>Fund Cash Balances, January 1</i>	<u>107,889</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$101,130</u></u>

See accompanying notes to the basic financial statements

Village of Zaleski, Ohio
Vinton County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

The Village of Zaleski, Vinton County, Ohio, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides general governmental services, water and sewer utilities and park operations.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

M&R Fund This fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

Street Repair Fund This fund accounts for property tax levy monies used for the maintenance and repair of streets within the Village. The primary source of revenue for this fund is monies received from a tax levy.

Fire Contracts Fund This fund is used to account for the revenues received for providing fire protection services for other governments. The primary source of revenue for this fund is money that is collected for charges for services provided.

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

Village of Zaleski, Ohio
Vinton County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

Enterprise Funds (Continued)

Water Fund The water fund accounts for the provision of water treatment and distribution to the residents located within the Village.

Sewer Fund The sewer fund accounts for the provision of sanitary sewer services to the residents within the Village.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03 (D) permit.

Budgetary Process

The Ohio Revised Code requires that each fund 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 Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

Estimated Resources Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must approve estimated resources.

Encumbrances The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not use the encumbrance method of accounting. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2016 budgetary activity appears in Note 4.

Village of Zaleski, Ohio
Vinton County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Deposits

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Capital Assets

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

Accumulated Leave

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

Fund Balance

Fund balance is divided into three classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Village of Zaleski, Ohio
Vinton County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 3 - Compliance

Contrary to Ohio law, appropriations exceeded estimated resources in the Wire Transfer Fund by \$24,303 for the year ended December 31, 2016.

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund, Fire Contracts Fund, and Sewer Fund by \$459, \$30,983, and \$32,200, respectively, for the year ended December 31, 2016.

Note 4 - Budgetary Activity

Budgetary activity for the year ending December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$13,898	\$21,679	\$7,781
Special Revenue	67,886	88,105	20,219
Enterprise	503,151	548,939	45,788
Total	\$584,935	\$658,723	\$73,788

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$20,596	\$21,055	(\$459)
Special Revenue	223,007	104,543	118,464
Enterprise	601,883	555,698	46,185
Total	\$845,486	\$681,296	\$164,190

Note 5 – Deposits

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

	2016
Demand deposits	\$263,102

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

Village of Zaleski, Ohio
Vinton County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 6 – Taxes

Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

Note 7 - Risk Management

The Village has obtained commercial insurance for the following risks:

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

Note 8 - Defined Benefit Pension Plan

Ohio Public Employees Retirement System

Some employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

Note 9 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Village of Zaleski, Ohio
Vinton County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 10 – Debt

Debt outstanding at December 31, 2016 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Rural Development Loan - 5%	\$ 51,300	\$ -	\$ 2,900	\$ 48,400
OWDA Loan #6656 - 0%	682,634	249,404	80,055	851,983
OWDA Loan #6884 - 0%	-	23,815	23,815	-
OWDA Loan #6999 - 0%	-	23,714	23,714	-
Kansas State Bank Loan - 2.41%	14,300		4,654	9,646
Total:	<u>\$ 748,234</u>	<u>\$ 296,933</u>	<u>\$ 135,138</u>	<u>\$ 910,029</u>

The United States Development of Agriculture, Rural Development Loan relates to a water expansion project. The Rural Development has provided \$93,000 in loans to the Village for this project. The loan will be repaid in average annual installments of \$5,478 over 40 years from the Water Fund.

In connection with the Rural Development Loan, the Village has pledged future water collection revenue to repay this debt. The loan is payable through its final maturity solely from water collection revenues received from water customers. The revenue available for this loan for 2016 was \$54,972, and principal and interest paid was \$5,465. The coverage ratio for this loan was 9.94 for the year ended December 31, 2016.

In 2014, the Village entered into a loan with OWDA (#6656) for the purpose of a new wastewater treatment system. This loan repaid the initial planning and design OWDA loan #5108 as construction of the wastewater treatment system began in 2014. During 2016, \$249,404 was disbursed to the Village with \$57,829 being repaid by principal forgiveness from OWDA and \$22,226 was paid by the Village. As of the end of 2016, the loan had not been fully disbursed and therefore the repayment schedule has not been issued and is not reflected within the amortization schedule below.

In 2015, the Village entered into a loan with OWDA (#6884) for the purpose of sanitary sewer improvements. During 2016, \$23,815 was disbursed to the Village with \$23,815 being repaid by principal forgiveness from OWDA. As of the end of 2016, the loan had not been fully disbursed and therefore the repayment schedule has not been issued and is not reflected within the amortization schedule below.

In 2013, the Village entered into a loan with OWDA (#6999) in the amount of \$100,000 for the purpose of installing sewer connections to customers. During 2016, \$23,714 was disbursed to the Village with \$23,714 being repaid by principal forgiveness from OWDA. As of the end of 2016, the entire loan had been fully disbursed and repaid by principal forgiveness from OWDA.

In November 2015, the Village obtained a loan through Kansas State Bank for the purchase of a backhoe in the amount of \$14,300. Payments will be made annually in the amount of \$4,998, including interest, with the first payment due in November 2016. Payments will be made from the Water Operating Fund.

Village of Zaleski, Ohio
Vinton County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 10 – Debt (Continued)

Amortization

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

Year ending December 31:	Rural Development Loan	Kansas State Bank
2017	\$5,420	\$4,998
2018	5,470	4,998
2019	5,410	
2020	5,445	
2021	5,470	
2022-2026	27,375	
2027-2031	10,970	
Total	<u>\$65,560</u>	<u>\$9,996</u>

Note 11 – Contingent Liabilities

Litigation

The Village is not currently party to any legal proceedings.

Grants

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

Note 12 – Related Party Transactions

On August 17, 2016 the Board of Public Affairs approved a reduction of sewer charges on a certain Board member's utility bill for filling of a swimming pool. This said member did not abstain from voting.

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Village of Zaleski, Ohio*Vinton County**Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)**All Governmental Fund Types**For the Year Ended December 31, 2015*

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$3,776	\$23,904	\$27,680
Intergovernmental	14,291	60,499	74,790
Charges for Services	0	3,500	3,500
Earnings on Investments	189	8	197
Miscellaneous	512	7,336	7,848
<i>Total Cash Receipts</i>	<u>18,768</u>	<u>95,247</u>	<u>114,015</u>
Cash Disbursements			
Current:			
Security of Persons and Property	0	57,711	57,711
Leisure Time Activities	0	3,026	3,026
Basic Utility Services	1,718	0	1,718
Transportation	0	21,143	21,143
General Government	16,356	10,874	27,230
<i>Total Cash Disbursements</i>	<u>18,074</u>	<u>92,754</u>	<u>110,828</u>
<i>Net Change in Fund Cash Balances</i>	694	2,493	3,187
<i>Fund Cash Balances, January 1</i>	<u>6,970</u>	<u>167,629</u>	<u>174,599</u>
Fund Cash Balances, December 31			
Restricted	0	170,122	170,122
Assigned	7,664	0	7,664
<i>Fund Cash Balances, December 31</i>	<u><u>\$7,664</u></u>	<u><u>\$170,122</u></u>	<u><u>\$177,786</u></u>

See accompanying notes to the basic financial statements

Village of Zaleski, Ohio
Vinton County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
Proprietary Fund Type
For the Year Ended December 31, 2015

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	\$110,785
Miscellaneous	9,333
<i>Total Operating Cash Receipts</i>	<u>120,118</u>
Operating Cash Disbursements	
Personal Services	55,830
Contractual Services	7,143
Supplies and Materials	50,758
<i>Total Operating Cash Disbursements</i>	<u>113,731</u>
<i>Operating Income (Loss)</i>	<u>6,387</u>
Non-Operating Receipts (Disbursements)	
Intergovernmental	442,240
Earnings on Investments (proprietary funds only)	117
Other Debt Proceeds	885,345
Capital Outlay	(896,824)
Principal Retirement	(445,040)
Interest and Other Fiscal Charges	(2,705)
Other Financing Uses	(2,465)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(19,332)</u>
<i>Net Change in Fund Cash Balances</i>	(12,945)
<i>Fund Cash Balances, January 1</i>	<u>120,834</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$107,889</u></u>

See accompanying notes to the basic financial statements

**VILLAGE OF ZALESKI
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Zaleski, Vinton County, Ohio (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services, water and sewer utilities, and park operations.

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

B. Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit.

C. Deposits

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

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 accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

M&R Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

Fire Contracts Fund – This fund is used to account for the revenues received for providing fire protection services for other governments. The primary source of revenue for this fund is money that is collected for charges for services provided.

VILLAGE OF ZALESKI
VINTON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. 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 Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must 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 carried over, and need not be reappropriated. The Village did not use the encumbrance method of accounting. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2015 budgetary activity appears in Note 3.

F. Fund Balance

Fund balance is divided into two classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

VILLAGE OF ZALESKI
VINTON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balance (Continued)

2. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant, and Equipment

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

H. Accumulated Leave

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

2. EQUITY IN POOLED DEPOSITS

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

	2015
Demand deposits	<u>\$285,675</u>

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

**VILLAGE OF ZALESKI
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

3. Budgetary Activity

Budgetary activity for the year ending December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$12,844	\$18,768	\$5,924
Special Revenue	82,385	95,247	12,862
Enterprise	1,929,808	1,447,820	(481,988)
Total	\$2,025,037	\$1,561,835	(\$463,202)

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$19,350	\$19,040	\$310
Special Revenue	223,636	92,754	130,882
Enterprise	1,954,929	1,460,765	494,164
Total	\$2,197,915	\$1,572,559	\$625,356

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Fire Contracts Fund by \$27,065 for the year ended December 31, 2015.

4. PROPERTY TAX

Property taxes include amounts levied against all real property and public utility property located in the Village. Real property tax receipts received in 2015 represent collection of 2014 taxes. Real property taxes received in 2015 were levied after October 1, 2013 on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternative payment dates to be established.

Public utility property tax receipts received in 2015 represent the collection of 2014 taxes. Public utility real property taxes received in 2015 became a lien on December 31, 2013, were levied after October 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The full tax rate for all Village operations for the year ended December 31, 2015, was \$15.90 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2015 property tax receipts were based are as follows:

Real Property	
Residential	\$ 2,453,620
Other	79,380
Public Utility Property	181,110
Total Assessed Value	\$ 2,714,110

**VILLAGE OF ZALESKI
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

5. DEBT

Debt outstanding at December 31, 2015 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Rural Development Loan - 5%	\$ 54,100	\$ -	\$ 2,800	\$ 51,300
OWDA Loan #6656 - 0%	253,829	587,055	158,250	682,634
OWDA Loan #6884 - 0%	-	207,074	207,074	-
OWDA Loan #6999 - 0%	-	76,286	76,286	-
Kansas State Bank Loan - 2.41%	-	14,300	-	14,300
	<u>\$ 307,929</u>	<u>\$ 884,715</u>	<u>\$ 444,410</u>	<u>\$ 748,234</u>

The United States Department of Agriculture, Rural Development Loan relates to a water expansion project. The Rural Development has provided \$93,000 in loans to the Village for this project. The loan will be repaid in average annual installments of \$5,478 over 40 years from the Water Fund.

In connection with the Rural Development Loan, the Village has pledged future water collection revenues to repay this debt. The loan is payable through its final maturity solely from water collection revenue received from water customers. The revenue for this loan for 2015 was \$61,416, and principal and interest paid was \$5,505. The coverage ratio for this loan was 11.16 for the year ended December 31, 2015.

In 2014, the Village entered into a loan with OWDA for the purpose of a new wastewater treatment system. This loan repaid the initial planning and design OWDA loan #5108 as construction of the wastewater treatment system began in 2014. During 2015, \$587,055 was disbursed to the Village with \$158,250 being repaid by principal forgiveness from OWDA. As of the end of 2015, the loan had not been fully disbursed and therefore the repayment schedule has not been issued and is not reflected within the amortization schedule below.

In 2015, the Village entered into a loan with OWDA for the purpose of sanitary sewer improvements. During 2015, \$207,704 was disbursed to the Village with \$207,704 being repaid by principal forgiveness from OWDA. As of the end of 2015, the loan had not been fully disbursed and therefore, the repayment schedule has not been issued and is not reflected within the amortization schedule below.

In 2015, the Village entered into a loan with OWDA for the purpose of installing sewer connections to customers. During 2015, \$76,286 was disbursed to the Village with \$76,286 being repaid by principal forgiveness from OWDA. As of the end of 2015, the loan had not been fully disbursed and therefore the repayment schedule has not been issued and is not reflected within the amortization schedule below.

In November 2015, the Village obtained a loan through Kansas State Bank for the purchase of a backhoe in the amount of \$14,300. Payments will be made annually in the amount of \$4,998, including interest, with the first payment due in November 2016. Payments will be made from the Water Operating Fund.

**VILLAGE OF ZALESKI
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

5. DEBT (Continued)

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

Year ending December 31:	Rural Development	Kansas State Bank
2016	\$5,465	\$4,998
2017	5,420	4,998
2018	5,470	4,998
2019	5,410	
2020	5,445	
2021-2025	27,400	
2026-2030	16,415	
Total	\$71,025	\$14,994

6. DEFINED BENEFIT PENSION PLAN

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2015, OPERS members contributed 10%, respectively, of their gross salaries and the Village contributed an amount equaling 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

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

8. RELATED PARTY TRANSACTIONS

The Village employed a certain Council member's husband for snow plowing in 2015 that was not approved in the minute record, totaling \$2,500, in which the council member signed off on the vouchers along with two other members for payments to her husband. A certain Board of Public Affairs relative was hired in 2015 as the Superintendent of Public Utilities. The Board also approved sick leave and overtime for the employee that the said Board member did not abstain from voting.



Dave Yost • Auditor of State

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

Village of Zaleski
Vinton County
P.O. Box 176
Zaleski, Ohio 45698

To the Village Council:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of Zaleski, Vinton County, Ohio, (the Village), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated May 23, 2018 wherein we noted the Village followed financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit. We also qualified our opinion on the financial statements, as we were unable to obtain sufficient appropriate audit evidence supporting Special Revenue and Enterprise Fund disbursements for the year ended December 31, 2016 and the General Fund, Special Revenue, and Enterprise Fund disbursements for the year ended December 31, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying Schedule of Findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider Findings 2016-001 and 2016-005 described in the accompanying Schedule of Findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Finding 2016-007 described in the accompanying Schedule of Findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Village'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, opining 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2016-001 through 2016-006.

Entity's Response to Findings

The Village's responses to the Findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

May 23, 2018

**VILLAGE OF ZALESKI
VINTON COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Noncompliance and Material Weakness

Ohio Rev. Code § 149.351(A) establishes guidelines against the destruction or damage of records. All records are the property of the public office and shall not be removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law.

Ohio Admin. Code § 117-2-02(A) provides that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Ohio Admin. Code § 117-2-02(B) further provides that the management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. The accounting system should assure completeness is achieved for all transaction types and account balances applicable to the local public office's operations, considering the basis of accounting applicable to it. The definition of the completeness assertion is that all account balances and transactions that should be included in the financial records are included.

The Village should maintain an accounting system and accounting records sufficient to enable the Village to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The following items were noted during testing of the Village's vouchers, payroll, and debt for the years ended December 31, 2016 and 2015:

1. In 2015, supporting documentation was not available for 9% of General Fund disbursements, 7% of Fire Contract Fund disbursements and 32% of M&R Fund disbursements (10% of total Special Revenue Fund disbursements), and 44% of Sewer Fund disbursements (11% of total Enterprise Fund disbursements). In 2016, supporting documentation was not available for 52% of Fire Contract Fund disbursements (22% of total Special Revenue Fund Disbursements) and 92% of Wire Transfer Fund disbursements (7% of total Enterprise Fund Disbursements). Disbursements made absent of any supporting documentation or adequate detail did not allow management to make an informed decision as to whether the purchase was for a proper public purpose.
2. The reverse side of the canceled checks were not available for any of the disbursements written by check for 2015.
3. Debt Agreements were not made available for the OWDA loans.
4. The Payroll History Report did not include all employees/officials paid during the audit period. Further, amounts paid to employees per the Payroll History Report did not always agree to amounts paid per the W-2.
5. Checks cleared with a different number from the check number in the accounting system.

VILLAGE OF ZALESKI
VINTON COUNTY

SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Continued)

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

FINDING NUMBER 2016-001 (Continued)

Noncompliance and Material Weakness – Ohio Rev. Code § 149.351(A) (Continued)

These practices could result in unauthorized purchases or incorrect or duplicate payments. This also results in the lack of sufficient appropriate audit evidence over disbursements in the Fire Contract Fund, General Fund, M&R Fund, and Sewer Fund for 2015 and in the Fire Contract Fund and Wire Transfer Fund in 2016. Furthermore, incomplete payroll ledgers hinders the ability to determine if proper payments were made to employees/officials and to ensure payments made were payments earned. Lastly, issuing checks with a different check number than the number generated in the accounting system makes it difficult to find the voucher/invoice.

The Village should make no payment from the Village Treasury that is not supported by an approved voucher package that would include, at a minimum, an original invoice or receipt for expenditures. All agreements and other accounting records should be maintained in a manner and location which would allow Village officials to be able to locate them. The Village should also establish control procedures that would allow them to determine the completeness and existence of expenditures and require all supporting documentation to be maintained in order for the Village to ensure that all disbursements are accurate and appropriate. The Village Fiscal Officer should ensure that the check number agrees to the check number entered into the system.

FINDING NUMBER 2016-002

Noncompliance

Ohio Rev. Code § 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official certificate.

Appropriations exceeded estimated resources at December 31, 2016, in the Wire Transfer Fund in the amount of \$24,303. This could result in overspending of available resources.

The Fiscal Officer should monitor the approved appropriations to ensure they do not exceed the estimated resources on the amended certificates.

VILLAGE OF ZALESKI
VINTON COUNTY

SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Continued)

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

FINDING NUMBER 2016-003

Noncompliance

Ohio Rev. Code § 5705.41(B) prohibits subdivisions or taxing authorities from expending money unless it has been appropriated.

At December 31, 2016, expenditures exceeded appropriations, as follows:

	Authority	Expenditures	Variance
General Fund	\$ 20,596	\$ 21,055	\$ (459)
Fire Contracts Fund	12,865	43,848	(30,983)
Sewer Fund	73,155	105,355	(32,200)

At December 31, 2015, expenditures exceeded appropriations, as follows:

	Authority	Expenditures	Variance
Fire Contracts Fund	\$ 20,579	\$ 47,644	\$ (27,065)

The practice of allowing expenditures to exceed appropriations could result in negative fund balances for the Village.

The Fiscal Officer should compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the Village Council should adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The Fiscal Officer should deny requests for payment when appropriations are not available.

FINDING NUMBER 2016-004

Noncompliance

Ohio Rev. Code § 5705.41(D) provides that Fiscal Officers may prepare so-called "blanket" certificates for a sum not exceeding an amount established by resolution or ordinance adopted by the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the Fiscal Officer is attached thereto. The Fiscal Officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

**VILLAGE OF ZALESKI
VINTON COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2016-004 (Continued)

Noncompliance – Ohio Rev. Code § 5705.41(D)(1) (Continued)

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. Blanket Certificates - Fiscal Officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate - The Village may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

None of the disbursements tested were certified by the Village Fiscal Officer as purchase orders, blanket certificates, or super blanket certificates were not on file. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Further, the Village had unrecorded encumbrances totaling \$3,717 and \$7,325 at December 31, 2016 and 2015, respectively, in various funds.

Unless the Village uses the exceptions noted above, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, the Fiscal Officer should certify that the funds are, or will be, available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

**VILLAGE OF ZALESKI
VINTON COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2016-004 (Continued)

Noncompliance – Ohio Rev. Code § 5705.41(D)(1) (Continued)

The Fiscal Officer should certify purchases to which § 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language § 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time they Village incurs a commitment, and only when the requirements of § 5705.41(D) are satisfied. The Village Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation. The accounting system should show which purchase order was used on each disbursement.

FINDING NUMBER 2016-005

Noncompliance and Material Weakness

Ohio Admin. Code § 117-2-02(A) provides that all local public offices maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Village's monthly cash reconciliations did not reconcile with the bank balances. The following errors were noted:

In 2015:

- Sewer Fund disbursements were understated \$11,479.

In 2016:

- General Fund intergovernmental receipts were overstated \$2,910, General Fund taxes were overstated \$24,535, Fire Levy Fund taxes were overstated \$512, Street Light Fund taxes were overstated \$518, and Street Repair Fund taxes were overstated \$742 due to duplicate posting of receipts;
- Park Fund taxes of \$1,342 were unrecorded;
- Water Operating Fund miscellaneous receipts were overstated \$97; and
- Water Reserve 2 Fund other financing sources were overstated \$109.

Failure to reconcile the Village's accounting system with the bank monthly resulted in other adjusting factors from April 2016 through December 2016 and inaccurate fund balances.

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The financial statements also contained the following errors that required audit adjustment or reclassification:

**VILLAGE OF ZALESKI
VINTON COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2016-005 (Continued)

Noncompliance/Material Weakness – Ohio Admin. Code § 117-2-02(A) (Continued)

In 2015:

- Statement No. 54 of the Governmental Accounting Standards Board (GASB) defines the reporting of fund balances on the financial statements and was codified as follows: GASB Cod. 1800.176 require reporting amounts as assigned when subsequent appropriations exceed estimated receipts. The Village incorrectly reported the assigned portion of the General Funds' cash fund balance as unassigned, in the amount of \$7,664.
- Water Operating Fund loan proceeds and capital outlay expenditures of \$14,300 were unrecorded; and
- Sewer Operating Fund capital outlay expenditures of \$24,586 were incorrectly recorded in the Water Operating Fund and a transfer out in the same amount was posted in the Sewer Operating Fund and a transfer in was posted in the Water Operating Fund to correct the error.

In 2016:

- M&R Fund intergovernmental receipts of \$4,405 were incorrectly recorded as intergovernmental in the General Fund;
- Highway Fund intergovernmental receipts of \$357 were incorrectly recorded as intergovernmental in the General Fund;
- Water Operating Fund debt service principal and interest of \$4,654 and \$344, respectively, were incorrectly recorded as supplies and materials; and
- Sewer Operating Fund transfer in of \$10,000 and Wire Transfer Fund transfer out of \$10,000 were made without approval or any other support.

The audited financial statements and the Village's accounting system have been adjusted for the items noted above.

The Fiscal Officer should reconcile the Village's accounting system to the bank balances each month and investigate any variances that may occur. Further, the Fiscal Officer should review the Village handbook for guidance to ensure financial statements are complete and accurate. The Fiscal Officer should also review Auditor of State Bulletin 2011-004 for Statement No. 54 of the Governmental Accounting Standards Board (GASB) for proper reporting of fund balances on the financial statements [see GASB Cod. 1800.165].

FINDING NUMBER 2016-006

Noncompliance

Ohio Admin. Code § 117-2-02(C)(1) provides that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

At December 31, 2016, estimated receipts as approved by the Budget Commission did not agree to the Village's accounting system. The variances were as follows:

**VILLAGE OF ZALESKI
VINTON COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Continued)**

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

FINDING NUMBER 2016-006 (Continued)

Noncompliance (Continued)

	Approved	System	Variance
General Fund	\$ 13,898	\$ 12,898	\$ 1,000
Fire Contract Fund	8,100	13,100	(5,000)
Fire Levy Fund	20,395	5,395	15,000
Wire Transfer Fund	10,000	-	10,000

At December 31, 2015, estimated receipts as approved by the Budget Commission did not agree to the Village's accounting system. The variances were as follows:

	Approved	System	Variance
Fire Contract Fund	\$ 38,244	\$ 7,200	\$ 31,044
Water Fund	147,713	52,000	95,713

At December 31, 2016, appropriations as approved by the Village Council did not agree to the Village's accounting system. The variances were as follows:

	Approved	System	Variance
Fire Contract Fund	\$ 12,865	\$ 17,865	\$ (5,000)
Sewer Fund	73,155	83,793	(10,638)

At December 31, 2015, appropriations as approved by the Village Council did not agree to the Village's accounting system. The variances were as follows:

	Approved	System	Variance
Water Fund	\$ 90,265	\$ 114,851	\$ (24,586)
Sewer Fund	66,177	54,698	11,479

Due to budgetary information being improperly entered into the system, the management of the Village lost some degree of budgetary control. An adjustment was made in the budgetary activity reported in Note 3 to the 2015 financial statements and Note 4 to the 2016 financial statements in order to accurately present estimated receipts and appropriations as approved by the Budget Commission and Village Council, respectively.

The Fiscal Officer should accurately post estimated receipts as certified by the County Budget Commission and appropriations as approved by the Village Council only after receiving approval. This procedure will help ensure more useful comparisons of budget versus actual activity, as well as provide management with an accurate monitoring tool throughout the year.

VILLAGE OF ZALESKI
VINTON COUNTY

SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Continued)

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

FINDING NUMBER 2016-007

Significant Deficiency

Reconciliations should be performed between the Utility System monthly Cash Receipts/Write-off Journal Reports and the amounts posted in the Budgetary Posting Journal.

We noted the Cash Receipts/Write-off Journal totals did not agree to the amounts posted in the Budgetary Posting Journal. In most months, the Budgetary Posting Journal had higher receipt totals than the utility system which could be due to miscellaneous receipts, tap-fees, interest, etc. being posted in the Budgetary Posting Journal that would not flow through the utility system's records.

However, the Budgetary Posting Journal descriptions for receipts posted were mostly "Water Revenue"; "Sewer Revenue"; and "EPA/Loan Repayment". There were several occasions where receipts did not identify the allocation among the water and sewer receipts. Due to the lack of detail provided on the receipt, we were unable to determine that monies were posted properly. The lack of detail on the receipts resulted in the Budgetary Posting Journal reporting \$4,726 and \$27,203 more in receipts for 2015 and 2016, respectively, than the Cash Receipt/Write-off Journals. Failure to properly reconcile the monies received for utilities and provide clear descriptions of the receipts could lead to items not being properly recorded in the general ledger and in the financial statements.

The Utility Clerk should perform reconciliations monthly to ensure the amounts reflected in the utility system agree to the amounts posted in the Budgetary Posting Journal. Timing differences (such as utility receipts posted to Budgetary Posting Journal in the following month) and other differences (such as tap fees or other miscellaneous receipts) should be documented on these monthly reconciliations.

Official's Response to Findings above: The Village of Zaleski has had a change in administration in May of 2017. The current Council, Mayor, and Fiscal Officer are aware of the findings related to the financial statements. We are aware that these were not corrected during the audit period. The Village Administration's goal is to wait for the audit hearing from the current audit and make as many corrections as possible during the couple months left of the next audit in six months, then continue in 2019 to try and comply with the remainder of the findings, non-compliance, and material weaknesses. Village Council is committed to having compliance in more areas.

**VILLAGE OF ZALESKI
VINTON COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016 AND 2015**

Finding Number	Finding Summary	Status	Additional Information
2014-001	Ohio Rev. Code § 145.47 – failure to withhold OPERS from employee' check	Fully Corrected	
2014-002	Ohio Rev. Code § 149.351(A) – failure to maintaining supporting documentation, bank statements, debt agreements, and reverse side of canceled checks	Not Corrected	Village of Zaleski has new administration: Council, Mayor, and Fiscal Officer beginning June 2017. New Administration is aware of this weakness and currently working hard to fix weakness and comply with this and all findings.
2014-003	Ohio Rev. Code § 5705.40 – approved appropriations did not agree to amounts in the system.	Not Corrected	See response above.
2014-004	Ohio Rev. Code § 5705.41 (B) – expenditures exceeded appropriations.	Not Corrected	See response above.
2014-005	Ohio Rev. Code § 5705.41 (D) – Maximum amount not established by resolution for blanket certificates, failure to certify purchases, and post approved purchase orders into the system.	Not Corrected	See response above.
2014-006	Material Weakness for not maintaining supporting documentation Park Day receipts.	Not Corrected	See response above.
2014-007	Material Weakness for errors in posting receipts and disbursements.	Not Corrected	See response above.
2014-008	Significant Deficiency - Reconciliations between Utility system and budgetary posting journal were not performed.	Not Corrected	See response above.

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Dave Yost • Auditor of State

VILLAGE OF ZALESKI

VINTON 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
JUNE 5, 2018