



**Auditor of State
Betty Montgomery**

VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of South Zanesville
Muskingum County
24 East Main Street
South Zanesville, Ohio 43701

To the Village Council:

We have audited the accompanying financial statements of the Village of South Zanesville, Muskingum County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates 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 discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of South Zanesville, Muskingum County, as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Village of South Zanesville
Muskingum County
Independent Accountants' Report
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This report is intended solely for the information and use of the audit committee, management, the Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 10, 2003

**VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$172,645	\$31,268	\$	\$	\$203,913
Special Assessments		19,629			19,629
Intergovernmental Receipts	65,520	46,389		291,555	403,464
Charges for Services	56,354	2,287			58,641
Fines, Licenses, and Permits	19,625	600			20,225
Earnings on Investments	3,272	1,795			5,067
Miscellaneous	16,572	3,221			19,793
Total Cash Receipts	<u>333,988</u>	<u>105,189</u>	<u>0</u>	<u>291,555</u>	<u>730,732</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	156,430				156,430
Leisure Time Activities	33,990				33,990
Transportation	6,309	74,484			80,793
General Government	161,624				161,624
Debt Service:					
Principal Payments	22,602		25,000		47,602
Interest Payments	8,492		43,490		51,982
Capital Outlay	26,946	76,078		296,726	399,750
Total Cash Disbursements	<u>416,393</u>	<u>150,562</u>	<u>68,490</u>	<u>296,726</u>	<u>932,171</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(82,405)</u>	<u>(45,373)</u>	<u>(68,490)</u>	<u>(5,171)</u>	<u>(201,439)</u>
Other Financing Receipts/(Disbursements):					
Transfers-In	80,000		68,500		148,500
Transfers-Out	(15,000)				(15,000)
Total Other Financing Receipts/(Disbursements)	<u>65,000</u>	<u>0</u>	<u>68,500</u>	<u>0</u>	<u>133,500</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(17,405)</u>	<u>(45,373)</u>	<u>10</u>	<u>(5,171)</u>	<u>(67,939)</u>
Fund Cash Balances, January 1	<u>94,893</u>	<u>118,233</u>	<u>5,391</u>	<u>7,025</u>	<u>225,542</u>
Fund Cash Balances, December 31	<u>\$77,488</u>	<u>\$72,860</u>	<u>\$5,401</u>	<u>\$1,854</u>	<u>\$157,603</u>
Reserves for Encumbrances, December 31	<u>\$2,908</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,908</u>

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

**VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM 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, 2002**

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$562,438	\$	\$562,438
Miscellaneous	7,431		7,431
Total Operating Cash Receipts	<u>569,869</u>	<u>0</u>	<u>569,869</u>
Operating Cash Disbursements:			
Personal Services	107,870		107,870
Fringe Benefits	53,196		53,196
Contractual Services	329,229		329,229
Supplies and Materials	31,756		31,756
Other	4,336	5,111	9,447
Capital Outlay	92,838		92,838
Total Operating Cash Disbursements	<u>619,225</u>	<u>5,111</u>	<u>624,336</u>
Operating Income/(Loss)	<u>(49,356)</u>	<u>(5,111)</u>	<u>(54,467)</u>
Non-Operating Cash Receipts:			
Property Tax and Other Local Taxes		125,290	125,290
Intergovernmental Receipts	9,731		9,731
Special Assessments	1,976		1,976
Earnings on Investments	3,700		3,700
Other Non-Operating Receipts		26,861	26,861
Total Non-Operating Cash Receipts	<u>15,407</u>	<u>152,151</u>	<u>167,558</u>
Non-Operating Cash Disbursements:			
Debt Service:			
Principal Payments	36,860		36,860
Interest Payments	9,464		9,464
Other Non-Operating Disbursements		26,861	26,861
Total Non-Operating Cash Disbursements	<u>46,324</u>	<u>26,861</u>	<u>73,185</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(80,273)	120,179	39,906
Transfers-Out		(133,500)	(133,500)
Net Receipts Over/(Under) Disbursements	(80,273)	(13,321)	(93,594)
Fund Cash Balances, January 1	<u>325,381</u>	<u>39,024</u>	<u>364,405</u>
Fund Cash Balances, December 31	<u>\$245,108</u>	<u>\$25,703</u>	<u>\$270,811</u>
Reserve for Encumbrances, December 31	<u>\$16,090</u>	<u>\$0</u>	<u>\$16,090</u>

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

**VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$153,087	\$31,203	\$	\$	\$184,290
Special Assessments		2,038			2,038
Intergovernmental Receipts	78,634	46,261		136,620	261,515
Charges for Services	41,771	2,362			44,133
Fines, Licenses, and Permits	28,412	1,130			29,542
Earnings on Investments	5,777	4,737			10,514
Miscellaneous	16,486	3,739			20,225
Total Cash Receipts	<u>324,167</u>	<u>91,470</u>	<u>0</u>	<u>136,620</u>	<u>552,257</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	131,418				131,418
Leisure Time Activities	30,359				30,359
Transportation	4,000	77,809			81,809
General Government	173,186				173,186
Debt Service:					
Principal Payments	21,205		820,000		841,205
Interest Payments	9,889		55,845		65,734
Financing and Other Debt-Service Related			11,758		11,758
Capital Outlay	49,637	14,509		163,678	227,824
Total Cash Disbursements	<u>419,694</u>	<u>92,318</u>	<u>887,603</u>	<u>163,678</u>	<u>1,563,293</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(95,527)</u>	<u>(848)</u>	<u>(887,603)</u>	<u>(27,058)</u>	<u>(1,011,036)</u>
Other Financing Receipts/(Disbursements):					
Sale of Bonds			875,000		875,000
Proceeds of Loans				33,642	33,642
Transfers-In	85,000		15,000		100,000
Total Other Financing Receipts/(Disbursements)	<u>85,000</u>	<u>0</u>	<u>890,000</u>	<u>33,642</u>	<u>1,008,642</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(10,527)	(848)	2,397	6,584	(2,394)
Fund Cash Balances, January 1	105,420	119,081	2,994	441	227,936
Fund Cash Balances, December 31	<u>\$94,893</u>	<u>\$118,233</u>	<u>\$5,391</u>	<u>\$7,025</u>	<u>\$225,542</u>
Reserves for Encumbrances, December 31	<u>\$3,183</u>	<u>\$18,075</u>	<u>\$0</u>	<u>\$0</u>	<u>\$21,258</u>

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

**VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM 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, 2001**

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$559,091	\$	\$559,091
Miscellaneous	2,385		2,385
Total Operating Cash Receipts	<u>561,476</u>	<u>0</u>	<u>561,476</u>
Operating Cash Disbursements:			
Personal Services	102,633		102,633
Fringe Benefits	43,318		43,318
Contractual Services	269,830		269,830
Supplies and Materials	28,888		28,888
Capital Outlay	111,819		111,819
Miscellaneous	3,061		3,061
Total Operating Cash Disbursements	<u>559,549</u>	<u>0</u>	<u>559,549</u>
Operating Income/(Loss)	<u>1,927</u>	<u>0</u>	<u>1,927</u>
Non-Operating Cash Receipts:			
Interest	10,869		10,869
Local Taxes		105,422	105,422
Intergovernmental Receipts	18,211		18,211
Proceeds of Loan	10,118		10,118
Other Non-Operating Receipts		36,980	36,980
Total Non-Operating Cash Receipts	<u>39,198</u>	<u>142,402</u>	<u>181,600</u>
Non-Operating Cash Disbursements:			
Debt Service:			
Principal Payments	31,516		31,516
Interest Payments	10,394		10,394
Other Non-Operating Disbursements		36,980	36,980
Total Non-Operating Cash Disbursements	<u>41,910</u>	<u>36,980</u>	<u>78,890</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(785)	105,422	104,637
Transfers-Out		(100,000)	(100,000)
Net Receipts Over/(Under) Disbursements	(785)	5,422	4,637
Fund Cash Balances, January 1	<u>326,166</u>	<u>33,602</u>	<u>359,768</u>
Fund Cash Balances, December 31	<u>\$325,381</u>	<u>\$39,024</u>	<u>\$364,405</u>
Reserve for Encumbrances, December 31	<u>\$58,626</u>	<u>\$0</u>	<u>\$58,626</u>

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

**VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of South Zanesville, Muskingum 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. The Village is directed by a publicly-elected six-member Council. The Village provides water and sewer utilities, refuse collection, park and pool operations, and police services. The Village appropriates general fund money to support a volunteer fire department.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Money market mutual funds (including STAROhio) are recorded at share values reported by the mutual fund.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue 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.

State Highway Improvement Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing state highways within the Village.

VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Fund (Continued)

Special Assessment Street Light Fund – This fund receives a special assessment tax for maintaining and repairing of the Village’s street lights.

3. Debt Service Fund

The Bond Retirement Fund is used to accumulate resources for the payment of bond indebtedness used to finance the construction of a new municipal building.

4. Capital Project Funds

The Capital Project Fund is used to account for receipts and disbursements restricted for a street paving project partially funded with Issue II monies from the Ohio Public Works Commission.

5. Enterprise Funds

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

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

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

Refuse Collection Fund – This fund receives charges for services from residents to cover the costs of providing this utility.

6. Fiduciary Funds (Agency Funds)

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

Local Income Tax Fund – This fund receives a one percent income tax levies on wages earned by Village residents and employees who work within the Village’s corporation limits. Taxes received by this fund are transferred to other funds for expenditure for general governmental purposes.

Mayor’s Court – This fund receives and distributes Mayor’s Court fines and forfeitures.

**VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. 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.

3. 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 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a 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:

**VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

	2002	2001
Demand deposits	\$67,774	\$235,713
Total deposits	67,774	235,713
 STAROhio		
Total investments	360,640	354,234
 Total deposits and investments	\$428,414	\$589,947

Deposits: Deposits are either insured by the Federal Deposit Insurance Corporation, or collateralized by securities specifically pledged by the financial institution to the Village.

Investments: Investments in STAROhio are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$365,433	\$413,988	\$48,555
Special Revenue	62,500	105,189	42,689
Debt Service	78,500	68,500	(10,000)
Capital Projects	300,000	291,555	(8,445)
Enterprise	563,500	585,276	21,776
Total	\$1,369,933	\$1,464,508	\$94,575

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$443,053	\$434,301	\$8,752
Special Revenue	168,275	150,562	17,713
Debt Service	26,000	68,490	(42,490)
Capital Projects	100,000	296,726	(196,726)
Enterprise	817,748	681,639	136,109
Total	\$1,555,076	\$1,631,718	(\$76,642)

**VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 355,596	\$ 409,167	\$ 53,571
Special Revenue	62,500	91,470	28,970
Debt Service	40,000	890,000	850,000
Capital Projects	200,000	170,262	(29,738)
Enterprise	563,500	600,674	37,174
Total	\$ 1,221,596	\$ 2,161,573	\$ 939,977

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 451,093	\$ 422,877	\$ 28,216
Special Revenue	167,795	110,393	57,402
Debt Service	875,000	887,603	(12,603)
Capital Projects	100,000	163,678	(63,678)
Enterprise	907,983	660,085	247,898
Total	\$ 2,501,871	\$ 2,244,636	\$ 257,235

Contrary to Ohio law, expenditures exceeded appropriations in the Bond Retirement and Capital Projects funds by \$12,603 and \$63,678, respectively, for the year ended December 31, 2001. Expenditures exceeded appropriations in the State Highway, Bond Retirement, Capital Projects and Water funds by \$1,762, \$42,490, \$196,726, and \$166,624, respectively, for the year ended December 31, 2002.

Also contrary to Ohio law, the Capital Projects Fund had a cash deficit balance of \$89 at December 31, 2002.

4. PROPERTY TAX

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

**VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

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.

6. DEBT

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
Ohio Environmental Protection Agency Loan	\$8,000	0.00%
Ohio Water Development Authority Loan	52,973	8.48%
Ohio Public Works Commission - Water Line Loan	5,458	2.00%
Ohio Public Works Commission - Water Tank Loan	44,574	4.00%
Ohio Public Works Commission - I & I Project	37,561	2.00%
Ohio Public Works Commission - Waterline Replacement Loan	3,203	2.00%
Ohio Public Works Commission - Water Main Loan	36,390	2.00%
Municipal Building Bonds	850,000	5.15%
Total	\$1,038,159	

The Ohio Environmental Protection Agency loan relates to the sewer line improvements and studies completed in 1998. The loan principal will be repaid through the Sewer Fund in annual installments of \$2,000, over 10 years. This is an interest free loan which was originally issued on July 1, 1997 in the amount of \$20,000. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover the debt service requirements.

The Ohio Water Development Authority (OWDA) loan was to shut down the Village's sewer treatment plant and switch over to the Muskingum County sewer system to comply with a mandate from the Ohio Environmental Protection Agency. The loan will be repaid through the Sewer Fund in semiannual installments of \$9,083, including interest, over 20 years. This loan was issued on January 1, 1987 in the amount of \$172,166. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission (OPWC) loans relating to the water tank and water line expansion project will be repaid in semiannual installments of \$5,461 for the water tank and \$1,856 for the water line, including interest, over 10 years. The loans were originally issued on January 15, 1995 in the amount of \$89,295 and \$33,490. The loans are collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

The Ohio Public Works Commission (OPWC) loan relating to the sewer inflow and infiltration improvement project (I & I Project) that the Village completed in 1998 will be repaid in semiannual installments of \$3,338, including interest, over 10 years. The loan was originally issued on July 1, 1997 in the amount \$60,223. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

**VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. DEBT (Continued)

The Ohio Public Works Commission (OPWC) loans relating to the waterline replacement and west side water main projects will be repaid in semiannual installments of \$206 for the waterline replacement and \$2,219 for the west side water main, including interest, over 10 years. The loans were originally issued in 2001 in the amount of \$3,714 and \$40,046. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

The Municipal Building Bonds relate to the construction of the new village hall completed in 2000. The Municipal Building Bonds are collateralized by and will be repaid with the Village's income tax revenue.

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

Years ending December 31:	OEPA Sewer Line Loan	OWDA Loan	OPWC Loans	Municipal Building Bonds
2003	\$2,000	\$18,166	\$26,159	\$65,800
2004	2,000	18,166	24,303	64,600
2005	2,000	18,166	22,447	68,400
2006	2,000	9,083	22,447	66,960
2007			16,986	65,520
2008 - 2022			25,869	1,000,323
Total	<u>\$8,000</u>	<u>\$63,581</u>	<u>\$138,211</u>	<u>\$1,331,603</u>

7. LEASE OBLIGATIONS

The Village entered into a ten year lease for the acquisition of a new fire truck during 1996 with Midwest Bankers Group, Inc. This lease requires the Village to make payments of \$31,094 annually beginning September 1997. After the last payment in September 2006, ownership will transfer to the Village. As of December 31, 2002, the total outstanding lease payment was \$124,375.

8. RETIREMENT 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 2002 and 2001, 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, 2002.

**VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

9. RISK MANAGEMENT

The Village is a member of the Public Entities Pool of Ohio (PEP). PEP assumes the risk of loss up to the limits of the Village's policy. PEP may make supplemental premiums. The following risks are covered by PEP:

- General liability and casualty;
- Employee Benefit Liability
- Automobile Liability

The Village provides health insurance and dental and vision coverage to full-time employees through a private carrier.

Risk Pool Membership

The Village belongs to the Public Entities Pool of Ohio ("PEP"), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments 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 casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-occurrence limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, the Travelers Indemnity Company provides coverage in excess of \$10,000.

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 government.

**VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

9. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

Financial Position

PEP's financial position statement (audited by other accountants) conforms with generally accepted accounting principles, and reported the following assets, liabilities, and retained earnings at December 31, 2001 and 2000 (the latest information available):

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$19,358,458	\$17,112,129
Liabilities	<u>(8,827,588)</u>	<u>(7,715,035)</u>
Retained earnings	<u>\$10,530,870</u>	<u>\$9,397,094</u>
<u>Property Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	1,890,323	1,575,614
Liabilities	<u>(469,100)</u>	<u>(281,561)</u>
Retained earnings	<u>1,421,223</u>	<u>1,294,053</u>

10. CONTINGENT LIABILITIES

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

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**Auditor of State
Betty Montgomery**

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

Village of South Zanesville
Muskingum County
24 East Main Street
South Zanesville, Ohio 43701

To the Village Council:

We have audited the accompanying financial statements of the Village of South Zanesville, Muskingum County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated April 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2002-31050-001 through 2002-31050-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated April 10, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. A reportable condition is described in the accompanying Schedule of Findings as item 2002-31060-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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, we do not consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated April 10, 2003.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 10, 2003

**VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

FINDING NUMBER 2002-31060-001

Noncompliance Citation

Ohio Rev. Code § 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the money was received.

During 2002, the Village received an OPWC Street Paving Project Grant whereby the Village's share of the OPWC paving project (\$5,644) was paid from the Water Fund. Costs of street paving do not represent allowable expenditures of water revenues.

As a result, the paving project expenditures of \$5,644 should have been paid from the Street Construction, Maintenance and Repair Fund instead of the Water Fund.

This adjustment, with which Village management agrees, has been posted to the Village's books and is reflected in the accompanying financial statements.

FINDING NUMBER 2002-31060-002

Noncompliance Citation

Ohio Rev. Code § 5705.41(B) states, in part, that no subdivision or taxing authority is to expend money unless it has been appropriated.

During 2001, the Bond Retirement Fund had expenditures that exceeded appropriations by \$12,603, and the Capital Projects Fund had expenditures that exceeded appropriations by \$63,678. During 2002, the State Highway Fund had expenditures that exceeded appropriations by \$1,762, the Bond Retirement Fund had expenditures that exceeded appropriations by \$42,490, the Capital Projects Fund had expenditures that exceeded appropriations by \$196,726, and the Water Fund had expenditures that exceeded appropriations by \$166,624. Noncompliance in the Water Fund is due to audit adjustments for water and sewer project activity improperly posted to the Capital Projects Fund.

We recommend Village management monitor unencumbered appropriations. The Treasurer should deny payment requests exceeding appropriations. The Treasurer may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

VILLAGE OF SOUTH ZANESVILLE
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)

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

FINDING NUMBER 2002-31060-003

Noncompliance Citation and Reportable Condition

Ohio Rev.Code § 5705.41(D)(1) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this requirement are provided by statute:

- A. "Then and Now" Certificate: This exception provides that, if the fiscal officer (Clerk-Treasurer) can certify that both at the time that the contract or order was made and at the time that she is completing her certification, 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 taxing authority (Village Council) can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.
- B. Amounts of less than \$1,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of a "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 taxing authority.

The Village Council neither obtained the Clerk-Treasurer's prior certification for 40 percent of the transactions we tested in 2001 and 25 percent of the transactions we tested in 2002, nor was there evidence of a "Then and Now" certificate being issued by the Clerk-Treasurer in these instances.

We recommend the Clerk-Treasurer's certification of the availability of funds be obtained prior to incurring any Village obligations. The Clerk-Treasurer should deny requests for payments if appropriations are not available.

