



**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, 2004 and 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standard*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP).

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, 2004 and 2003, 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 March 25, 2005 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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This report is intended solely for the information and use of 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

March 25, 2005

**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, 2004**

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>					
Property Tax and Other Local Taxes	\$185,395	\$34,595	\$	\$	\$219,990
Special Assessments		20,268			20,268
Intergovernmental Receipts	69,259	59,298		34,562	163,119
Charges for Services	18,221	1,775			19,996
Fines, Licenses, and Permits	18,952	800			19,752
Earnings on Investments	890	614			1,504
Miscellaneous	19,519	1,217			20,736
<b>Total Cash Receipts</b>	<b>312,236</b>	<b>118,567</b>		<b>34,562</b>	<b>465,365</b>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons and Property	182,444				182,444
Leisure Time Activities	10,056				10,056
Transportation	13,518	80,554			94,072
General Government	146,519	4,000			150,519
Debt Service:					
Principal Payments	25,678		25,000		50,678
Interest Payments	5,416		41,090		46,506
Capital Outlay	12,628	25,188		34,500	72,316
<b>Total Cash Disbursements</b>	<b>396,259</b>	<b>109,742</b>	<b>66,090</b>	<b>34,500</b>	<b>606,591</b>
<b>Total Cash Receipts Over/(Under) Cash Disbursements</b>	<b>(84,023)</b>	<b>8,825</b>	<b>(66,090)</b>	<b>62</b>	<b>(141,226)</b>
<b>Other Financing Receipts/(Disbursements):</b>					
Transfers-In	63,000		70,000		133,000
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>63,000</b>	<b>0</b>	<b>70,000</b>	<b>0</b>	<b>133,000</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<b>(21,023)</b>	<b>8,825</b>	<b>3,910</b>	<b>62</b>	<b>(8,226)</b>
Fund Cash Balances, January 1	58,891	78,502	111	54	137,558
<b>Fund Cash Balances, December 31</b>	<b>\$37,868</b>	<b>\$87,327</b>	<b>\$4,021</b>	<b>\$116</b>	<b>\$129,332</b>
Reserves for Encumbrances, December 31	\$2,403	\$30	\$0	\$0	\$2,433

*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, 2004**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$568,097	\$	\$568,097
Total Operating Cash Receipts	<u>568,097</u>		<u>568,097</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	114,415		114,415
Fringe Benefits	70,190		70,190
Contractual Services	284,669		284,669
Supplies and Materials	23,895		23,895
Other	23,457		23,457
Capital Outlay	20,561		20,561
Total Operating Cash Disbursements	<u>537,187</u>		<u>537,187</u>
Operating Income/(Loss)	<u>30,910</u>		<u>30,910</u>
<b>Non-Operating Cash Receipts:</b>			
Property Tax and Other Local Taxes		116,183	116,183
Earnings on Investments	865		865
Other Non-Operating Receipts		25,975	25,975
Total Non-Operating Cash Receipts	<u>865</u>	<u>142,158</u>	<u>143,023</u>
<b>Non-Operating Cash Disbursements:</b>			
Debt Service			
Principal Payments	38,508		38,508
Interest Payments	5,379		5,379
Other Non-Operating Cash Disbursements		25,975	25,975
Total Non-Operating Cash Disbursements	<u>43,887</u>	<u>25,975</u>	<u>69,862</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements Before Interfund Transfers and Advances	(12,112)	116,183	104,071
Transfers-Out		(133,000)	(133,000)
Net Receipts Over/(Under) Disbursements	(12,112)	(16,817)	(28,929)
Fund Cash Balances, January 1	<u>151,262</u>	<u>20,534</u>	<u>171,796</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$139,150</u></b>	<b><u>\$3,717</u></b>	<b><u>\$142,867</u></b>
Reserve for Encumbrances, December 31	<u>\$1,079</u>	<u>\$0</u>	<u>\$1,079</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, 2003**

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>					
Property Tax and Other Local Taxes	\$179,599	\$29,332	\$	\$	\$208,931
Special Assessments		18,819			18,819
Intergovernmental Receipts	56,718	53,708		36,861	147,287
Charges for Services	52,996	2,445			55,441
Fines, Licenses, and Permits	25,078	1,117			26,195
Earnings on Investments	1,107	477			1,584
Miscellaneous	12,954	1,586			14,540
<b>Total Cash Receipts</b>	<u>328,452</u>	<u>107,484</u>		<u>36,861</u>	<u>472,797</u>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons and Property	165,935				165,935
Leisure Time Activities	31,697				31,697
Transportation	4,688	81,170			85,858
General Government	167,841				167,841
Debt Service:					
Principal Payments	24,091		25,000		49,091
Interest Payments	7,003		42,290		49,293
Capital Outlay	13,794	20,672		38,661	73,127
<b>Total Cash Disbursements</b>	<u>415,049</u>	<u>101,842</u>	<u>67,290</u>	<u>38,661</u>	<u>622,842</u>
<b>Total Cash Receipts Over/(Under) Cash Disbursements</b>	<u>(86,597)</u>	<u>5,642</u>	<u>(67,290)</u>	<u>(1,800)</u>	<u>(150,045)</u>
<b>Other Financing Receipts/(Disbursements):</b>					
Transfers-In	68,000		62,000		130,000
<b>Total Other Financing Receipts/(Disbursements)</b>	<u>68,000</u>	<u>0</u>	<u>62,000</u>	<u>0</u>	<u>130,000</u>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<u>(18,597)</u>	<u>5,642</u>	<u>(5,290)</u>	<u>(1,800)</u>	<u>(20,045)</u>
<b>Fund Cash Balances, January 1</b>	<u>77,488</u>	<u>72,860</u>	<u>5,401</u>	<u>1,854</u>	<u>157,603</u>
<b>Fund Cash Balances, December 31</b>	<u><u>\$58,891</u></u>	<u><u>\$78,502</u></u>	<u><u>\$111</u></u>	<u><u>\$54</u></u>	<u><u>\$137,558</u></u>
<b>Reserves for Encumbrances, December 31</b>	<u><u>\$2,818</u></u>	<u><u>\$701</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$3,519</u></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, 2003**

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$559,468	\$	\$559,468
Total Operating Cash Receipts	559,468		559,468
<b>Operating Cash Disbursements:</b>			
Personal Services	117,486		117,486
Fringe Benefits	65,691		65,691
Contractual Services	350,005		350,005
Supplies and Materials	33,176		33,176
Other	4,128		4,128
Capital Outlay	44,998		44,998
Total Operating Cash Disbursements	615,484		615,484
Operating Income/(Loss)	(56,016)		(56,016)
<b>Non-Operating Cash Receipts:</b>			
Property Tax and Other Local Taxes		124,132	124,132
Special Assessments	38		38
Earnings on Investments	1,483		1,483
Other Non-Operating Receipts	6,631	34,237	40,868
Total Non-Operating Cash Receipts	8,152	158,369	166,521
<b>Non-Operating Cash Disbursements:</b>			
Debt Service			
Principal Payments	38,557		38,557
Interest Payments	7,425		7,425
Other Non-Operating Cash Disbursements		33,538	33,538
Total Non-Operating Cash Disbursements	45,982	33,538	79,520
Excess of Cash Receipts Over/(Under) Cash Disbursements Before Interfund Transfers and Advances	(93,846)	124,831	30,985
Transfers-Out		(130,000)	(130,000)
Net Receipts Over/(Under) Disbursements	(93,846)	(5,169)	(99,015)
Fund Cash Balances, January 1	245,108	25,703	270,811
<b>Fund Cash Balances, December 31</b>	<b>\$151,262</b>	<b>\$20,534</b>	<b>\$171,796</b>
Reserve for Encumbrances, December 31	\$6,825	\$0	\$6,825

*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, 2004 AND 2003**

**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 South Zanesville, Muskingum County (the Village), as a body corporate and politic. A publicly-elected six-member Council governs the Village. 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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis 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 adequately disclose material matters the Auditor of State prescribes.

**C. Cash and Investments**

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

The Village values certificates of deposit at cost. Money market mutual funds (including STAR Ohio) are recorded at share values the mutual fund reports.

**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 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 license tax money for constructing, maintaining and repairing Village streets.

**VILLAGE OF SOUTH ZANESVILLE  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**2. Special Revenue Fund (Continued)**

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

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

**3. Debt Service Fund**

The Bond Retirement Fund is used to account for resources the Village accumulates to pay 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 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 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 levied 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, 2004 AND 2003  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. Village 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 2004 and 2003 budgetary activity appears in Note 3.

**F. 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.

**G. 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 CASH AND INVESTMENTS**

The Village maintains a cash and investments pool all funds use. 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, 2004 AND 2003  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

	2004	2003
Demand deposits	\$106,309	\$45,732
STAROhio		
Total investments	165,890	263,622
Total deposits and investments	\$272,199	\$309,354

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

**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, 2004 and 2003 follows:

**2004 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$358,874	\$375,236	\$16,362
Special Revenue	73,000	118,567	45,567
Debt Service	70,000	70,000	0
Capital Projects	310,000	34,562	(275,438)
Enterprise	554,000	568,962	14,962
Total	\$1,365,874	\$1,167,327	(\$198,547)

**2004 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$397,198	\$398,662	(\$1,464)
Special Revenue	133,301	109,772	23,529
Debt Service	70,000	66,090	3,910
Capital Projects	285,000	34,500	250,500
Enterprise	705,747	582,153	123,594
Total	\$1,591,246	\$1,191,177	\$400,069

**VILLAGE OF SOUTH ZANESVILLE  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 357,472	\$ 396,452	\$ 38,980
Special Revenue	65,162	107,484	42,322
Debt Service	63,000	62,000	(1,000)
Capital Projects	35,500	36,861	1,361
Enterprise	568,500	567,620	(880)
Total	\$ 1,089,634	\$ 1,170,417	\$ 80,783

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 428,058	\$ 417,867	\$ 10,191
Special Revenue	133,200	102,543	30,657
Debt Service	5,000	67,290	(62,290)
Capital Projects	285,500	38,661	246,839
Enterprise	798,412	668,291	130,121
Total	\$ 1,650,170	\$ 1,294,652	\$ 355,518

Contrary to Ohio law, expenditures exceeded appropriations in the Bond Retirement Fund by \$62,290 for the year ended December 31, 2003. Expenditures exceeded appropriations in the General Fund by \$1,464 for the year ended December 31, 2004.

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment 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.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

**VILLAGE OF SOUTH ZANESVILLE  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

**5. LOCAL INCOME TAX**

In November of 2004, residents of the Village authorized an additional .5 percent municipal income tax. The Village now levies a municipal income tax of 1.5 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, 2004 was as follows:

	Principal	Interest Rate
Ohio Environmental Protection Agency Loan	\$4,000	0.00%
Ohio Water Development Authority Loan	24,395	8.48%
Ohio Public Works Commission - Water Tank Loan	25,740	4.00%
Ohio Public Works Commission - I & I Project	25,535	2.00%
Ohio Public Works Commission - Waterline Replacement Loan	2,497	2.00%
Ohio Public Works Commission - Water Main Loan	28,857	2.00%
Municipal Building Bonds	800,000	5.15%
Total	\$911,024	

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 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) 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.

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.



**VILLAGE OF SOUTH ZANESVILLE  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

**6. DEBT (Continued)**

The Municipal Building Bonds were issued to finance the construction of the new village hall completed in 2000. The Municipal Building Bonds are general obligations of the Village and are intended to be repaid with the Village's income tax revenue. The \$875,000 bonds issued for new village hall construction include serial and term bonds in the amounts of \$455,000 and \$420,000, respectively. The bonds are being retired from the Bond Retirement Fund.

The term bonds maturing on December 1, 2017 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption on December 1 in the year and in the respective principal amounts as follows:

Year	Principal Amount to be Redeemed
2015	\$50,000
2016	\$55,000

The term bonds maturing on December 1, 2021 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption on December 1 in the years and in the respective principal amounts as follows:

Year	Principal Amount to be Redeemed
2018	\$60,000
2019	\$65,000
2020	\$65,000

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
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>\$4,000</u>	<u>\$27,249</u>	<u>\$87,749</u>	<u>\$1,201,203</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, 2004, the total outstanding lease payment was \$56,541.

**VILLAGE OF SOUTH ZANESVILLE  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

**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 Ohio Public Employees Retirement System (OPERS) of Ohio. OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS 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, 2004.

**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 coverage 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 claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, 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 with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

**VILLAGE OF SOUTH ZANESVILLE  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

**9. RISK MANAGEMENT (Continued)**

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.

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, 2003 and 2002 (the latest information available):

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$25,288,098	\$20,174,977
Liabilities	(12,872,985)	(8,550,749)
Retained earnings	<u>\$12,415,113</u>	<u>\$11,624,228</u>
<u>Property Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$3,158,813	\$2,565,408
Liabilities	(792,061)	(655,318)
Retained earnings	<u>2,366,752</u>	<u>1,910,090</u>

**10. CONTINGENT LIABILITIES**

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. Grantors 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.

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 financial statements of the Village of South Zanesville, Muskingum County, Ohio (the Village), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated March 25, 2005, wherein we noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine 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 management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2004-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 believe the reportable condition described above is a material weakness. In a separate letter to the Village's management dated March 25, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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### **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, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2004-001 through 2004-004. In a separate letter to the Village's management dated March 25, 2005, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and the Village Council. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

March 25, 2005

VILLAGE OF SOUTH ZANESVILLE  
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2004 AND 2003

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

FINDING NUMBER 2004-001

**Noncompliance Citation and Reportable Condition – Fiscal Officer’s Certification**

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing authority 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.

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 Rev. Code.

1. **“Then and Now” Certificates** – If the fiscal officer (Clerk-Treasurer) 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 taxing authority (Village Council) can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution. Amounts of less than \$1,000 (which was increased to \$3,000 on April 7, 2003) 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 Certificate** – Fiscal officers may prepare “blanket” certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current year. The blanket certificate 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. Effective September 26, 2003, certificates may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend beyond the end of the fiscal year. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.
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 extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

**VILLAGE OF SOUTH ZANESVILLE  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2004-001 (Continued)**

**Noncompliance Citation and Reportable Condition - Ohio Rev. Code § 5705.41(D)(1) (Continued)**

The Village did not properly certify the availability of funds prior to incurring a purchase commitment for 33 percent of the expenditures we tested in 2003 and 50 percent of the expenditures we tested in 2004, and there was no evidence that the Clerk-Treasurer followed the aforementioned exceptions. In certain instances, more than one blanket certificate was outstanding for a particular line item appropriation. Also, Council did not establish an amount for which blanket certificates could be issued for.

Failure to certify the availability of funds and encumber appropriations could result in overspending and negative cash balances.

Unless the exceptions noted above are used, 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, we recommend the Clerk-Treasurer certify that the funds are or will be available prior to an obligation being incurred by the Village. When prior certification is not possible, "then and now" certification should be used. Only one blanket certificate should be used for a particular line item appropriation. Village Council should adopt a resolution to indicate an amount that blanket certificates cannot exceed.

**FINDING NUMBER 2004-002**

**Noncompliance Citation – Expenditures Limited by Appropriation Authority**

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing unit from making any expenditure of money unless the same has been properly appropriated.

Expenditures exceeded appropriations as follows:

<b>Fund</b>	<b>Amount</b>
Bond Retirement (for the year ended December 31, 2003)	\$62,290
General (for the year ended December 31, 2004)	\$1,464

This situation leads to the increased possibility that deficit spending could occur.

We recommend that Village Council and the Clerk-Treasurer monitor their budgetary cycle throughout the year to ensure that disbursements do not exceed the appropriations and prior year carryover encumbrances. The Clerk-Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk-Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary. This will help to ensure monies are properly appropriated and available for disbursement.



**VILLAGE OF SOUTH ZANESVILLE  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2004-003**

**Noncompliance Citation – Appropriations Limited by Total Estimated Resources**

Ohio Rev. Code § 5705.39 states, in part, that total appropriations from each fund shall not exceed the total estimated revenue.

For the year ended December 31, 2003, appropriations exceeded estimated resources in the Capital Projects Fund by \$248,145. Appropriations exceeded total estimated resources in the General Fund, Water Operating Fund, Sewer Operating Fund and the Street Construction, Maintenance and Repair Fund at various times, and by various amounts, throughout the audit period. When appropriations exceed estimated resources, the Village may spend more than what is available, and thus allow deficit spending to occur.

This situation may lead to disbursements within said funds exceeding the actual revenues available.

We recommend that Village Council and the Clerk-Treasurer monitor appropriations and estimated resources and file amendments as needed with the County Auditor in order to receive a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. This will help to reduce the risk of disbursements exceeding the actual revenues available as well as add a measure of control over the Village's budgetary process.

**FINDING NUMBER 2004-004**

**Noncompliance Citation – Failure to Obtain Amended Certificates**

Ohio Rev. Code § 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Rev. Code § 5705.36(A)(3) requires an increased amended certificate be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Rev. Code § 5705.36(A)(4) requires that a reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation. Ohio Rev. Code § 5705.36(A)(5) provides that the total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

For the year ended December 31, 2003, appropriations exceeded the beginning balance plus actual receipts as follows:

<b>Fund</b>	<b>Amount</b>
Drug Law Enforcement	\$843
Capital Project	\$246,784
Water Operating	\$7,648
Sewer Operating	\$18,516

VILLAGE OF SOUTH ZANESVILLE  
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2004 AND 2003  
(Continued)

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

FINDING NUMBER 2004-004 (Continued)

Noncompliance Citation – Ohio Rev. Code § 5705.36(A)(2) (Continued)

For the year ended December 31, 2004, appropriations exceeded the beginning balance plus actual receipts as follows:

Fund	Amount
Capital Project	\$250,383
Water Operating	\$2,665
Sewer Operating	\$4,989

Failure to obtain reduced amended certificates of estimated resources and to make corresponding reductions in appropriations, if needed, could result in deficit spending.

We recommend the Clerk-Treasurer and Village Council review budgeted and actual receipts each month to determine whether amended certificates of estimated resources are needed. When it is known that actual receipts will fall short of estimates, the Clerk-Treasurer should obtain a reduced amended certificate for the deficiency and reduce appropriations accordingly.

**VILLAGE OF SOUTH ZANESVILLE  
MUSKINGUM COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2002-001	ORC 5705.10 - Finding for Adjustment – Revenue posted to improper fund.	Yes	Finding no longer valid.
2002-002	ORC 5705.41(B) – Expenditures in excess of appropriations.	No	Repeated as finding 2004-002.
2002-003	ORC 5705.41(D)(1) – Expenditures were made without the fiscal officer’s prior certification.	No	Repeated as finding 2004-001.





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**VILLAGE OF SOUTH ZANESVILLE**

**MUSKINGUM 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  
MAY 24, 2005**