



**Auditor of State
Betty Montgomery**

VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2003	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Proprietary Fund Type and Similar Fiduciary Funds - For the Year Ended December 31, 2003	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types- For the Year Ended December 31, 2002	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Proprietary Fund Type and Similar Fiduciary Funds - For the Year Ended December 31, 2002	6
Notes to the Financial Statements	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	17
Schedule of Prior Audit Findings.....	20

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of South Charleston
Clark County
35 South Chillicothe Street
P.O. Box X
South Charleston, Ohio 45368

To the Village Commission:

We have audited the accompanying financial statements of the Village of South Charleston (the Village) as of and for the years ended December 31, 2003 and 2002. 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.

Except for the paragraph below, 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.

The Village's financial transactions were processed using 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 conduct the audit of 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 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.

We were unable to obtain sufficient evidential matter supporting the amount reported as charges for services for the proprietary fund type in the amounts of \$439,917 and \$374,534, for the years ending December 31, 2003 and 2002, respectively. In addition, we were unable to determine the validity of the amount reported through alternative procedures.

In our opinion, except for the effect of such adjustment, if any, as might have been determined to be necessary had we been able to determine the validity of the amounts reported as utility revenue, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2003 and 2002, 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 September 16, 2004 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.

This report is intended solely for the information and use of the management, Village Commission 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

September 16, 2004

**VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$84,614	\$27,595	\$112,209
Municipal Income Tax	331,546		331,546
Intergovernmental Receipts	261,908	113,650	375,558
Charges for Services	260	19,577	19,837
Fines, Licenses, and Permits	56,201	1,106	57,307
Earnings on Investments	615	618	1,233
Miscellaneous	88,473	3,065	91,538
	<u>823,617</u>	<u>165,611</u>	<u>989,228</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	182,620	30,992	213,612
Public Health Services		47,129	47,129
Transportation		38,018	38,018
General Government	365,875	75	365,950
Capital Outlay	342,291	43,183	385,474
	<u>890,786</u>	<u>159,397</u>	<u>1,050,183</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	<u>(67,169)</u>	<u>6,214</u>	<u>(60,955)</u>
Other Financing Receipts and (Disbursements):			
Transfers-In		20,000	20,000
Transfers-Out	(20,000)		(20,000)
Other Financing Sources	5		5
Other Financing Uses	(5,710)		(5,710)
	<u>(25,705)</u>	<u>20,000</u>	<u>(5,705)</u>
Total Other Financing Receipts/(Disbursements)			
Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(92,874)	26,214	(66,660)
Fund Cash Balances, January 1	<u>106,617</u>	<u>53,487</u>	<u>160,104</u>
Fund Cash Balances, December 31	<u><u>\$13,743</u></u>	<u><u>\$79,701</u></u>	<u><u>\$93,444</u></u>

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

VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Proprietary Fund Type	Fiduciary Funds		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$439,917			\$439,917
Court Fines & Costs			45,100	45,100
Earnings on Investments		230		230
Total Operating Cash Receipts	439,917	230	45,100	485,247
Operating Cash Disbursements:				
Personal Services	63,390			63,390
Fringe Benefits	13,340			13,340
Contractual Services	97,271			97,271
Supplies and Materials	44,284			44,284
Other	1,883			1,883
Distribution of Court Fines			45,100	45,100
Capital Outlay	26,181			26,181
Total Operating Cash Disbursements	246,349		45,100	291,449
Operating Income	193,568	230		193,798
Non-Operating Cash Receipts:				
Intergovernmental Receipts	40,357			40,357
Earnings on Investments	63			63
Total Non-Operating Cash Receipts	40,420			40,420
Non-Operating Cash Disbursements:				
Redemption of Principal	124,147			124,147
Interest and Other Fiscal Charges	87,227			87,227
Total Non-Operating Cash Disbursements	211,374			211,374
Net Receipts Over Disbursements	22,614	230		22,844
Fund Cash Balances, January 1	174,739	34,229	0	208,968
Fund Cash Balances, December 31	\$197,353	\$34,459	\$0	\$231,812

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

**VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$102,887	\$24,740	\$127,627
Municipal Income Tax	332,306		332,306
Intergovernmental Receipts	67,484	138,058	205,542
Charges for Services	140	11,480	11,620
Fines, Licenses, and Permits	46,624	4,095	50,719
Earnings on Investments	874	733	1,607
Miscellaneous	19,336	10	19,346
	<u>569,651</u>	<u>179,116</u>	<u>748,767</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	184,722	30,992	215,714
Public Health Services		44,563	44,563
Transportation		50,715	50,715
General Government	405,674	852	406,526
Capital Outlay	25,881	84,780	110,661
	<u>616,277</u>	<u>211,902</u>	<u>828,179</u>
Total Cash Disbursements			
Total Receipts (Under) Disbursements	<u>(46,626)</u>	<u>(32,786)</u>	<u>(79,412)</u>
Other Financing Receipts and (Disbursements):			
Transfers-In		10,000	10,000
Transfers-Out	(10,000)		(10,000)
Other Financing Sources	5		5
Other Financing Uses	(3,066)		(3,066)
	<u>(13,061)</u>	<u>10,000</u>	<u>(3,061)</u>
Total Other Financing Receipts/(Disbursements)			
Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements	(59,687)	(22,786)	(82,473)
Fund Cash Balances, January 1	<u>166,304</u>	<u>76,273</u>	<u>242,577</u>
Fund Cash Balances, December 31	<u>\$106,617</u>	<u>\$53,487</u>	<u>\$160,104</u>
Reserves for Encumbrances, December 31	<u>\$1,913</u>	<u>\$313</u>	<u>\$2,226</u>

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

VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Proprietary Fund Type	Fiduciary Funds		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$374,534			\$374,534
Court Fines & Costs			42,351	42,351
Earnings on Investments		356		356
Total Operating Cash Receipts	374,534	356	42,351	417,241
Operating Cash Disbursements:				
Personal Services	34,342			34,342
Fringe Benefits	16,961			16,961
Contractual Services	99,551			99,551
Supplies and Materials	28,517			28,517
Other	2,503			2,503
Distribution of Court Fines			42,351	42,351
Capital Outlay	477,939			477,939
Total Operating Cash Disbursements	659,813		42,351	702,164
Operating Income/(Loss)	(285,279)	356		(284,923)
Non-Operating Cash Receipts:				
Intergovernmental Receipts	47,671			47,671
Earnings on Investments	273			273
Sale of Notes	437,188			437,188
Other Receipts	660			660
Total Non-Operating Cash Receipts	485,792			485,792
Non-Operating Cash Disbursements:				
Redemption of Principal	104,127			104,127
Interest and Other Fiscal Charges	71,828			71,828
Total Non-Operating Cash Disbursements	175,955			175,955
Net Receipts Over Disbursements	24,558	356		24,914
Fund Cash Balances, January 1	150,181	33,873	0	184,054
Fund Cash Balances, December 31	\$174,739	\$34,229	\$0	\$208,968
Reserves for Encumbrances, December 31	\$165			\$165

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

**VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of South Charleston, Clark County, (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Pursuant to the provisions of Article XVIII of the Constitution of Ohio, the voters of the Village adopted a charter for the government of the Village on October 16, 1917. The Village is directed by a publicly-elected three-member Commission. The Village provides general governmental services, including water and sewer utilities, and police services.

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

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

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

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

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.

VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Enterprise Funds

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

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

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

4. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

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

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

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

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.

VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2003 and 2002 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:

	<u>2003</u>	<u>2002</u>
Demand deposits	\$322,756	\$366,572
Certificates of deposit	1,000	1,000
Total deposits	<u>323,756</u>	<u>367,572</u>
U.S. Savings Bonds	<u>1,500</u>	<u>1,500</u>
Total deposits and investments	<u><u>\$325,256</u></u>	<u><u>\$369,072</u></u>

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

**VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$763,821	\$823,622	\$59,801
Special Revenue	299,800	185,611	(114,189)
Enterprise	566,784	480,337	(86,447)
Non Expendable Trust	997	230	(767)
Total	<u>\$1,631,402</u>	<u>\$1,489,800</u>	<u>(\$141,602)</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$968,858	\$916,496	\$52,362
Special Revenue	237,872	159,397	78,475
Enterprise	790,095	457,723	332,372
Non Expendable Trust	7,080	0	7,080
Total	<u>\$2,003,905</u>	<u>\$1,533,616</u>	<u>\$470,289</u>

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$683,111	\$569,656	(\$113,455)
Special Revenue	342,863	189,116	(153,747)
Enterprise	745,775	860,326	114,551
Non Expendable Trust	968	356	(612)
Total	<u>\$1,772,717</u>	<u>\$1,619,454</u>	<u>(\$153,263)</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$746,127	\$631,256	\$114,871
Special Revenue	213,568	212,215	1,353
Enterprise	996,093	835,933	160,160
Non Expendable Trust	0	0	0
Total	<u>\$1,955,788</u>	<u>\$1,679,404</u>	<u>\$276,384</u>

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

**VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

4. PROPERTY TAX

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

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

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

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

5. 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, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan - #1896/0979	\$603,189	7.59%
Ohio Water Development Authority Loan - #2880/EV0384	5,000	0.00%
Ohio Water Development Authority Loan - #3450/0279	55,109	2.00%
Ohio Water Development Authority Loan - #3454/143DW	1,727,465	2.00%
Total	<u>\$2,390,763</u>	

The Ohio Water Development Authority (OWDA) loan #1896/0979 relates to a sewer plant expansion project; loan #2880/EV0384 relates to a waste water treatment system improvement planning project; loan #3450/0279 relates to water tower painting project; and loan #3454/143DW relates to a new wellfield and water system upgrade project. The loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

**VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. DEBT (Continued)

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

	<u>OWDA Loan #1896/0979</u>	<u>OWDA Loan #2880/EV0384</u>	<u>OWDA Loan #3450/0279</u>
Year ending December 31:			
2004	\$41,409	\$2,500	\$1,789
2005	82,818	2,500	3,578
2006	82,818		3,578
2007	82,818		3,578
2008	82,818		3,578
2009-2024	538,317		50,092
Total	<u>\$910,998</u>	<u>\$5,000</u>	<u>\$66,193</u>

However, the amortization schedule above does not include loan # 3454/143DW and #3573/CA as the amortization schedule was not available as of 12-31-03.

Additionally, the Ohio Water Development Authority approved the Village for the following loan agreements:

	<u>Amount Authorized</u>	<u>Amount Outstanding/ Disbursed and capitalized interest through Dec 31, 2003</u>	<u>Interest Rate</u>	<u>Repayment Terms</u>
Ohio Water Development Authority Loan #3573/CA	\$200,000	\$86,498	2.00%	20 years
Ohio Water Development Authority Loan #3941	88,752	402	2.00%	20 years
Total	<u>\$288,752</u>	<u>\$86,900</u>		

These loans relate to the following projects: Water Meter and Tank Improvement and Waste Water treatment plant pump station, respectively. These projects are not complete as of December 31, 2003, however, payments of interest and principal are being made for loan #3573/CA.

7. 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 2003 and 2002, 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, 2003.

**VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

8. RISK MANAGEMENT

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-claim 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.

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 statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2003 and 2002.

Casualty Coverage	2003	2002
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>
Property Coverage	2003	2002
Assets	\$3,158,813	\$2,565,408
Liabilities	(792,061)	(655,318)
Retained earnings	<u>\$2,366,752</u>	<u>\$1,910,090</u>

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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 Charleston
Clark County
35 South Chillicothe Street
P.O. Box X
South Charleston, Ohio 45368

To the Village Commission:

We have audited the accompanying financial statements of the Village of South Charleston, Clark County (the Village), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated September 16, 2004 wherein we noted that the Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN) and the report was qualified for lack of evidential matter regarding the Enterprise Fund Charges for Services revenues. *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of 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 *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 is required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 to 2003-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated September 16, 2004.

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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-005 to 2003-007.

**Internal Control Over Financial Reporting
(Continued)**

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. We consider item 2003-005 listed above to be a material weakness. We also noted other matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the Village's management in a separate letter dated September 16, 2004.

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



Betty Montgomery
Auditor of State

September 16, 2004

VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002

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

FINDING NUMBER 2003-001

Ohio Rev. Code 733.28 states the village clerk shall keep the books of the village, exhibit accurate statements of all moneys received and expended, of all the property owned by the village and the income derived therefrom, and of all taxes and assessments.

The Village clerk did not reconcile the books of the village during the audit period. The Village had inaccurate financial reports and the lack of adequate records. For 2003, seven audit adjustments totaling \$162,584, and for 2002 twelve audit adjustments totaling \$691,985, were made to the financial reports as presented. Errors included receipts or expenditures posted to incorrect line items and/or funds, \$88,028 in payments made to the Village from OPWC to pay debt not posted, \$291,151 notes proceeds not booked on the Village records from OWDA, \$20,103 to book expenditures to match COPS FAST grant received, and mayor's court revenue not posted. The accompanying financial statements include adjustments to accurately report this financial activity of the Village.

The Village should record all transactions in the books of the Village. Reference can be made to the Village Officer's Handbook and AOS Bulletin 2002-004 & 2002-005 with regards to accounting for monies receives from OPWC and AOS Bulletin 2000-008 with regards to accounting for OWDA and other similar grants.

FINDING NUMBER 2003-002

Ohio Rev. Code Section 5705.09 states that a special fund is required to be established for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. **Ohio Rev. Code 5705.10** states that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose. Money that is paid into a fund must be used only for the purposes for which such fund has been established.

The Village posted grant monies from the Ohio Department of Transportation in the amount of \$135,967 as intergovernmental revenues in the General Fund during 2003 and \$23,088 as intergovernmental revenues in the General Fund and \$31,946 as Miscellaneous Revenue to the Street, Construction, Maintenance and Repair Fund during 2002. Donations from a foundation for the Bikeway project were also posted to the General Fund. These items should have been recorded as intergovernmental revenues and contributions and donations within a restricted fund, instead of the General Fund or Street Construction, Maintenance and Repair Fund. The Village also posted grant receipts for the COPS FAST grants of \$7,748 as Miscellaneous Revenues in the General Fund during 2003 and posted related expenditures of \$13,082 during 2003 and \$7,021 during 2002 to the General Fund. The receipts for the grants and donations have been reclassified to the appropriate line item on the accompanying financial statements. The receipts and expenditures related to the COPS FAST grant has been adjusted to the Village's established COPS FAST grant special revenue fund on the accompanying financial statements.

The Village should develop and implement procedures to provide for the segregation of restricted grants and receipts.

FINDING NUMBER 2003-003

Ohio Rev. Code Section 5705.09 states that a special fund is required to be established for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. A fee of \$5 per case was established by the court for the computerization of the court. **Ohio Revised Code Section 1907.261**, applicable to the Mayor's Court by Ohio Revised Code Section 1905.02 requires the fees to be placed in a separate fund to be disbursed upon an order of the court in an amount not greater than the actual cost to the court of computerizing the court, procuring and maintaining computerized legal research services, or both.

The Village did not establish a fund for the Computer court fee and recorded the revenues as part of the general fund court fines. An adjustment has been made to the accompanying financial statements to report the fines as part of a separate special revenue court computer fund. The collections from this fee were \$4,095 during 2002 and \$1,106 during 2003. The Village should develop and implement procedures to establish appropriate funds when required.

FINDING NUMBER 2003-004

Section 29 of the Village Charter states that no contract, agreement, or other obligation involving the expenditure of money shall be entered into, nor shall any ordinance, resolution or order for the expenditure of money be passed by the Village Commission, or be authorized by any officer of the village, unless the village clerk shall first certify to the commission or to the proper officer, as the case may be, that the money required for such contract, agreement, obligation or expenditure, is in the treasury to the credit of the fund from which it is to be drawn, and not appropriated for any other purpose, which certificate shall be filed and immediately recorded. The sum so certified shall not thereafter be considered unappropriated until the village is discharged from the contract, agreement, or obligation. The provisions of this section and the requirement of a previous appropriation shall not apply to contracts or proceedings relating to improvements any part of the cost of which is to be paid by special assessment, nor to emergency expenditures in connection with the waterworks, nor to contracts for legal services.

The Village did not prepare a fiscal officer's certificate prior to the obligation of funds for \$395,715 or 88% of expenditures tested. The Village should implement procedures to obtain the fiscal officers certification of available funds prior to the obligation of the funds.

FINDING NUMBER 2003-005

Material Weakness - Utility Revenues

The village computer contains a utility software program which has not been accurate to date and the reports generated from the system are not saved. In addition, there was no master file showing payments by individual or businesses or a master listing of utility customers (i.e., the client should be able to provide a master listing of the accounts at any point in time along with any additions and deletions taking place during the year, by date). Also, there were no other subsidiary records maintained to track the timing and extent of collections.

The absence of a system to show complete, accurate and timely transactions taking place through the utility collection process could lead to errors or irregularities occurring without detection in the normal course of business on a timely basis.

A system should be devised for tracking utility transactions which should include a master file of all potential utility customers and a method to assure that additions to and deletions from this listing are posted to listings on a timely basis. A listing of additions and deletions complete with dates should be maintained, and daily, weekly or other subsidiary receipt ledgers designed to act as a control to identify receipts by utility customers (amount, date, penalty, if necessary) and any other information necessary to accurately track receipts. These subsidiary records should then be used as a basis for posting to the master file of all utility customers.

FINDING NUMBER 2003-006

Reportable Condition - Income Tax Records

The Village of South Charleston maintains a manual duplicate income tax receipt book. These receipts are lumped together and entered as one receipt in the general Village manual receipt book. The general Village manual receipts are used to complete a deposit.

Per testing, the manual duplicate income tax receipts could not be traced into the general Village manual receipt book. Furthermore, the general Village manual receipt book could not be traced to deposit slips made by the Village.

The Village needs to maintain a daily income tax revenue ledger and the manual duplicate income tax receipt book should be compared on a monthly basis to the ledger for agreement. The manual duplicate income tax receipts should then be marked with the receipt number from the general Village manual receipt that corresponds to the amount. The deposit slip should be made from the general Village manual receipt amount and include the receipt number. These checks and balances will help the Village keep track of the income tax revenue that should be entering the Village and make sure that all revenue is booked and accounted for in a timely manner.

FINDING NUMBER 2003-007

Reportable Condition - Bank Reconciliations

The Village was unable to reconcile the general depository account at year end. The Village Clerk does not perform bank reconciliations accurately and on a monthly basis. Failure to accurately reconcile accounts at year end could result in errors and discrepancies being undetected. The Village should develop and implement procedures including but not limited to the following:

- Ensure accurate and monthly reconciliations and ensure proper reviews are performed (perhaps by the Village Manager, audit committee or Village Commission and documented;
- Develop a policy which includes the length of time a check will remain outstanding before it is cancelled and reissued, or the amount is moved to unclaimed fees.

To help provide for accurate financial reporting, the safeguarding of assets, and that adequate controls over reporting are employed, the Village should perform monthly reconciliations between the bank and the general ledger balance. All adjustments on the reconciliations should be supported by documentation that justifies the adjustment. This reconciliation should be reviewed by someone independent of the financial record keeping process. Implementation of these procedures will provide the Village with accurate and timely financial information needed for decision making purposes.

**VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-30312-001	ORC Sec. 5705.10 – Improper allocation of revenues	No	See finding numbers 2003-002 and 2003-003
2001-30312-002	Section 29 of Village Charter – Failure to properly encumber	No	See finding number 2003-004
2001-30312-003	ORC Section 5705.41 (B) – Expenditures exceeded appropriations	No	Partially corrected; see management letter
2001-30312-004	Inaccurate receipting and reconciliations	No	See finding number 2003-007



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 4, 2004**