

Village of Zaleski

Vinton County

Regular Audit

January 1, 2003 Through December 31, 2004

Fiscal Years Audited Under GAGAS: 2004 & 2003

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**Auditor of State
Betty Montgomery**

Members of Council
The Village of Zaleski
P. O. Box 176
111 S. Second Street
Zaleski, Ohio 45698

We have reviewed the *Independent Auditor's Report* of the Village of Zaleski, Vinton County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period January 1, 2003 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Zaleski is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 15, 2005

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VILLAGE OF ZALESKI
VINTON COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor's Report	
Financial Statements:	
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types For the Year Ended December 31, 2004	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Enterprise Fund Types For the Year Ended December 31, 2004	2
Combined Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types For the Year Ended December 31, 2003	3
Combined Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances - Enterprise Fund Types For the Year Ended December 31, 2003	4
Notes to the Financial Statements	5-9
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	10-11
Schedule of Findings	12

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Members of Council
Village of Zaleski
P.O. Box 176
Zaleski, Ohio 45651

We have audited the accompanying financial statements of the Village of Zaleski, Vinton 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 of Zaleski's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Zaleski, Vinton County, Ohio, 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.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Village of Zaleski
Vinton County
Independent Auditor's Report

Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

September 1, 2005

VILLAGE OF ZALESKI
VINTON 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

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Cash Receipts:			
Local Taxes	\$ 3,748	\$ 15,416	\$ 19,164
Local Government	16,065	18,010	34,075
Charges for Services	-	6,600	6,600
Miscellaneous	24	-	24
Total Cash Receipts	19,837	40,026	59,863
Cash Disbursements:			
Security of Persons and Property	-	7,740	7,740
Transportation	-	6,984	6,984
General Government	16,043	4,401	20,444
Utility Service	2,471	-	2,471
Total Cash Disbursements	18,514	19,125	37,639
Excess of Cash Receipts Over /(Under) Cash Disbursements	1,323	20,901	22,224
Fund Cash Balances, January 1, 2004	5,348	40,589	45,937
Fund Cash Balances, December 31, 2004	<u>\$ 6,671</u>	<u>\$ 61,490</u>	<u>\$ 68,161</u>

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

VILLAGE OF ZALESKI
VINTON COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Enterprise
Operating Receipts:	
Charges for Services	\$ 42,546
Miscellaneous	124
	42,670
Total Operating Receipts	42,670
Operating Disbursements:	
Personal Services	14,548
Contract Services	7,029
Utilities	4,424
Supplies and Materials	6,187
	32,188
Total Operating Disbursements	32,188
Operating Income/(Loss)	10,482
Non-Operating Disbursements:	
Principal Retirement	1,600
Interest Expense	3,860
	5,460
Total Non-Operating Disbursements	5,460
Net Income/ (Loss)	5,022
Fund Cash Balances, January 1, 2004	84,045
	84,045
Fund Cash Balances, December 31, 2004	\$ 89,067

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

VILLAGE OF ZALESKI
VINTON 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

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Cash Receipts:			
Local Taxes	\$ 2,222	\$ 16,491	\$ 18,713
Local Government	12,968	20,564	33,532
Charges for Services	-	7,650	7,650
Miscellaneous	1,461	-	1,461
Total Cash Receipts	16,651	44,705	61,356
Cash Disbursements:			
Security of Persons and Property	-	4,895	4,895
Public Health Services	59	-	59
Transportation	-	16,894	16,894
General Government	14,790	40,938	55,728
Utility Service	2,297	-	2,297
Total Cash Disbursements	17,146	62,727	79,873
Excess of Cash Receipts Over /(Under) Cash Disbursements	(495)	(18,022)	(18,517)
Fund Cash Balances, January 1, 2003	5,843	58,611	64,454
Fund Cash Balances, December 31, 2003	<u>\$ 5,348</u>	<u>\$ 40,589</u>	<u>\$ 45,937</u>

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

VILLAGE OF ZALESKI
VINTON COUNTY

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

	Enterprise
Operating Receipts:	
Charges for Services	\$ 43,430
Miscellaneous	192
	43,622
Total Operating Receipts	43,622
Operating Disbursements:	
Personal Services	15,420
Contract Services	3,610
Utilities	3,926
Supplies and Materials	9,178
	32,134
Total Operating Disbursements	32,134
Operating Income/(Loss)	11,488
Non-Operating Disbursements:	
Principal Retirement	1,500
Interest Expense	3,935
	5,435
Total Non-Operating Disbursements	5,435
Net Income/ (Loss)	6,053
Fund Cash Balances, January 1, 2003	77,992
Fund Cash Balances, December 31, 2003	\$ 84,045

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

VILLAGE OF ZALESKI
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended December 31, 2004 and December 31, 2003

1. Summary of Significant Accounting Policies

A. Description of the Entity

The Village of Zaleski, Vinton County (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water utilities and police protection. The Village contacts with the Vinton County Sheriff's Department to provide security of persons and property.

The Village's management believes these financial statements represent 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 a payment is made 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. Fund Accounting

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

General Fund:

The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be restricted.

Special Revenue Funds:

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 license tax money to construct, maintain and repair Village streets.

Fire Levy Fund – This fund receives real estate and property taxes to provide fire protection for the residents of the Village.

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:

VILLAGE OF ZALESKI
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended December 31, 2004 and December 31, 2003

1. Summary of Significant Accounting Policies (Continued)

C. Fund Accounting (Continued)

Enterprise funds (Continued):

Water Revenue Fund – This fund received monies charged to residents to cover the cost of providing this utility.

Water Deposit Fund – This fund receives deposits from new water customers.

Water Reserve Fund – This fund received charges for services from residents.

Sinking Fund – This fund receives charges fro services to repay the Rural Development Loan.

D. Budgetary Process

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

Appropriations

Budgetary expenditures (i.e., disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The Village must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

Estimated Resources

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

Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and re-appropriated in the subsequent year. The Village did not encumber all funds as required by Ohio law.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

E. 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.

F. Total Column on the Financial Statements

Total columns on the financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type elimination’s have not been made in the aggregation of this data.

VILLAGE OF ZALESKI
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended December 31, 2004 and December 31, 2003

2. Equity in Pooled Cash

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>2004</u>	<u>2003</u>
Demand Deposits	157,863	130,239
Total Deposits	157,863	130,239
Reconciling Items	(635)	(257)
Carrying Amount	157,228	129,982

Deposits:

The Village's deposits are either (1) insured by the Federal Deposit Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2004 and December 31, 2003, was as follows:

2004 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$14,400	\$19,837	\$5,437
Special Revenue	\$29,498	\$40,026	\$10,528
Enterprise	\$51,000	\$42,670	(\$8,330)
Total	\$94,898	\$102,533	\$7,635

2004 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Actual Disbursements</u>	<u>Variance</u>
General	\$19,747	\$18,514	\$1,233
Special Revenue	\$70,088	\$19,125	\$50,963
Enterprise	\$86,394	\$37,648	\$48,746
Total	\$176,229	\$75,287	\$100,942

VILLAGE OF ZALESKI
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Years Ended December 31, 2004 and December 31, 2003

3. Budgetary Activity (Continued)

2003 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$15,246	\$16,651	\$1,405
Special Revenue	\$28,905	\$44,705	\$15,800
Enterprise	\$52,000	\$43,622	(\$8,378)
Total	<u>\$96,151</u>	<u>\$104,978</u>	<u>\$8,827</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Actual Disbursements</u>	<u>Variance</u>
General	\$21,037	\$17,146	\$3,891
Special Revenue	\$87,518	\$62,727	\$24,791
Enterprise	\$56,257	\$37,569	\$18,688
Total	<u>\$164,812</u>	<u>\$117,442</u>	<u>\$47,370</u>

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 payment, 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. Debt

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Rural Development Loan	\$75,600	5.0%

VILLAGE OF ZALESKI
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended December 31, 2004 and December 31, 2003

5. Debt (Continued)

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

Amortization of the above debt, including interest of \$55,805 is scheduled as follows:

Year Ending December 31:	General Obligation Notes
2005	\$5,480
2006	\$5,495
2007	\$5,505
2008	\$5,510
2009	\$5,510
Subsequent	<u>\$103,905</u>
Total	<u><u>\$131,405</u></u>

6. Retirement Systems

The Village employees, as well as the Clerk/Treasurer and Council members, belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, members of PERS contributed 8.5% of wages. The Village contributed an amount equal to 13.55% of participants' wages. The Village has paid all contributions required through December 31, 2004.

7. Risk Management

The Village has obtained commercial insurance coverage for the following risks:

- Comprehensive Property and General liability
- Public officials' liability
- Vehicles
- Errors and Omissions

There has been no significant reduction in insurance coverage from the prior year by major category of risk. Settled claims resulting from these risks have not exceeded commercial insurance coverage in either of the years under review.

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**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Members of Council
Village of Zaleski
P.O. Box 176
Zaleski, Ohio 45651

We have audited the financial statements of the Village of Zaleski, Vinton County, Ohio (the Village), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated September 1, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001.

Village of Zaleski
Vinton County
Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With
Government Auditing Standards

We noted certain matters that we reported to management of the Village in a separate letter dated September 1, 2005.

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

September 1, 2005

VILLAGE OF ZALESKI
VINTON 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

Ohio Rev. Code Section 5705.41 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 contracts 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.

Several exceptions to this basic requirement are provided by statute, including:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his 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 can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve a 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 authority.

Amounts of less than \$100 for counties, or less than \$3,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority 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 taxing authority.

The Village did not always properly encumber funds during the audit period.

**VILLAGE OF ZALESKI
VINTON COUNTY**

**CORRECTIVE ACTION PLAN
FOR FINDINGS REPORTED IN THE GAGAS REPORT
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person(s)
2004-001	Management will more closely monitor the encumbrance process to ensure compliance with ORC Section 5705.41(D).	12/31/2005	Sheryl Goble, Clerk



**Auditor of State
Betty Montgomery**

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VILLAGE OF ZALESKI

VINTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 23, 2006**