

VILLAGE OF EAST SPARTA

STARK COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2018 and 2017





88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

Village Council
Village of East Sparta
9353 East Main Street
East Sparta, Ohio 44626

We have reviewed the *Independent Auditor's Report* of the Village of East Sparta, Stark County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2017 through December 31, 2018. 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.

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 East Sparta is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

July 12, 2019

This page intentionally left blank.

VILLAGE OF EAST SPARTA
STARK COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2018 and 2017

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor's Report	1-2
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances (Regulatory Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2018	3
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances (Regulatory Cash Basis) - All Proprietary Types - For the Year Ended December 31, 2018	4
Notes to the Financial Statements – For the Year Ended December 31, 2018	5-11
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances (Regulatory Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2017	12
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances (Regulatory Cash Basis) - All Proprietary Types - For the Year Ended December 31, 2017	13
Notes to the Financial Statements – For the Year Ended December 31, 2017	14-20
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	21-22
Schedule of Findings	23
Prepared by Management:	
Schedule of Prior Audit Findings	24
Corrective Action Plan	25

This page intentionally left blank.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Village of East Sparta
Stark County
9353 East Main Street
East Sparta, OH 44626

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of East Sparta, Stark County, Ohio (the Village) as of and for the years ended December 31, 2018 and 2017.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2018 and 2017, and the respective changes in financial position or its cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Village of East Sparta, Stark County as of December 31, 2018 and 2017, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2019, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
May 31, 2019

**VILLAGE OF EAST SPARTA
STARK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Property and Other Local Taxes	\$ 132,639	\$ 106,341	\$ 238,980
Intergovernmental	31,143	56,519	87,662
Charges for Services	3,000	43,085	46,085
Fines, Licenses and Permits	12,709	-	12,709
Earnings on Investments	278	74	352
Miscellaneous	3,319	2,724	6,043
<i>Total Cash Receipts</i>	<u>183,088</u>	<u>208,743</u>	<u>391,831</u>
Cash Disbursements			
Current:			
Security of Persons and Property	22,931	63,955	86,886
Public Health Services	19,151	-	19,151
Leisure Time Activities	-	49,067	49,067
Transportation	340	62,281	62,621
General Government	96,718	-	96,718
Capital Outlay	-	70,000	70,000
Debt Service:			
Principal Retirement	-	9,347	9,347
Interest & Fiscal Charges	-	523	523
<i>Total Cash Disbursements</i>	<u>139,140</u>	<u>255,173</u>	<u>394,313</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	43,948	(46,430)	(2,482)
<i>Fund Cash Balances, January 1</i>	<u>80,302</u>	<u>159,437</u>	<u>239,739</u>
Fund Cash Balances, December 31			
Restricted	-	102,866	102,866
Committed	-	10,141	10,141
Assigned	350	-	350
Unassigned	123,900	-	123,900
<i>Fund Cash Balances, December 31</i>	<u>\$ 124,250</u>	<u>\$ 113,007</u>	<u>\$ 237,257</u>

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

**VILLAGE OF EAST SPARTA
STARK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Proprietary Fund Types Enterprise
Operating Cash Receipts	
Charges for Services	\$ 209,986
<i>Total Operating Cash Receipts</i>	209,986
Operating Cash Disbursements	
Personal Services	54,400
Fringe Benefits	8,329
Contractual Services	31,635
Supplies and Materials	40,051
<i>Total Operating Cash Disbursements</i>	134,415
<i>Operating Income (Loss)</i>	75,571
Non-Operating Receipts (Disbursements)	
Special Assessments	1,059
Miscellaneous	21,263
Principal Retirement	(68,387)
Interest and Other Fiscal Charges	(27,724)
<i>Total Non-Operating Receipts (Disbursements)</i>	(73,789)
<i>Net Change in Fund Cash Balance</i>	1,782
<i>Fund Cash Balances, January 1</i>	54,370
<i>Fund Cash Balances, December 31</i>	\$ 56,152

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

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2018

Note 1 - Reporting Entity

The Village of East Sparta, Stark County, Ohio (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. A publicly-elected six-member Council directs the Village. The Village provides general governmental services such as water and sewer utilities, road and bridge maintenance, and park operations. The Village contracts with the Village of Magnolia for police protection services and with the East Sparta Volunteer Fire Department to receive fire protection services.

Public Entity Risk Pool

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program. Note 6 to the financial statements provides additional information for this entity.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

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

Fund Accounting

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

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

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

Roads and Bridges Fund The roads and bridges fund accounts for and reports the receipt of local tax monies to be used to pay Village employees for work performed on Village roads and bridges.

Street Construction Maintenance and Repair The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

Enterprise Fund 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 Fund:

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

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. Council 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 disbursements when a commitment is made (i.e., when an encumbrance is approved).

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

Budgetary Process

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

Appropriations Budgetary disbursements (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

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

Encumbrances The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2018 budgetary activity appears in Note 3.

Deposits and Investments

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

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

Capital Assets

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

Accumulated Leave

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

Fund Balance

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

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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

Committed Council can *commit* amounts via formal action (ordinance or resolution). The Village must adhere to these commitments unless the Council amends the ordinance or resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by the Village Council or a Village official delegated that authority by resolution, or by State Statute. Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget in the general fund.

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

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

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2018

Note 3 - Budgetary Activity

Budgetary activity for the year ended December 31, 2018 follows:

2018 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 161,412	\$ 183,088	\$ 21,676
Special Revenue	238,065	208,743	(29,322)
Enterprise	325,000	232,308	(92,692)

2018 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 240,720	\$ 139,490	\$ 101,230
Special Revenue	393,231	259,098	134,133
Enterprise	378,645	233,026	145,619

Note 4 – Deposits

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

	2018
Demand deposits	\$ 293,409

Deposits

Deposits are insured by the Federal Depository Insurance Corporation or collateralized for 102 percent through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2018

Note 5 – Taxes

Property Taxes

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

Public utilities are also taxed on personal and real property located within the Village. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

Note 6 - Risk Management

Workers' Compensation coverage is provided by the State of Ohio. The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Risk Pool Membership

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Pool is a separate legal entity per Section 2744 of the Ohio Revised Code. The Pool provides property and casualty insurance for its members. The Pool pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

The Pool cedes portions of its gross contribution written to a reinsurer under excess reinsurance agreements in order to limit its losses. Treaty basis excess-of-loss contracts in force protect the Pool against losses over the retention level; at March 31, 2018, retention levels are \$50,000 and \$100,000 for property and casualty coverages, respectively.

The Pool remains liable to the extent the reinsuring companies are unable to meet their contractual obligations under reinsurance agreements.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and accumulated surplus at March 31, 2018.

Assets	\$1,341,128
Liabilities	<u>(884,941)</u>
Accumulated Surplus	\$ <u>456,187</u>

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2018

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants’ gross salaries. The Village has paid all contributions required through December 31, 2018.

Social Security

Three of the Village’s Council members contribute to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2% of their gross salaries. The Village contributed an amount equal to 6.2% of participants’ gross salaries. The Village has paid all contributions required through December 31, 2018.

Note 8 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 0 percent during calendar year 2018. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2018.

Note 9 – Debt

Debt outstanding at December 31, 2018 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Bank of Magnolia-Truck Purchase-2012	\$ 8,077	4.00%
OPWC Loan #CS08B	4,802	0.00%
OPWC Loan #CS08P	419,338	0.00%
OWDA Loan #6724-WTP, Storage Tank & Well Field	1,347,387	2.00%
Total	<u>\$ 1,779,604</u>	

The Ohio Public Works Commission (OPWC) Loan #CS08B relates to water improvements. The loan will be repaid in semi-annual installments of \$4,802 with no interest over 30 years. The loan is collateralized by the Village’s water receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2018

Note 9 – Debt (continued)

The OPWC Loan #CS08P relates to water improvements. The loan will be repaid in semi-annual installments of \$7,766 with no interest over 30 years. The loan is collateralized by the Village’s water receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

The Ohio Water Development Authority (OWDA) Loan #6724 was entered into to finance or reimburse costs associated with the design and construction of the wastewater collection and treatment system. The loan will be repaid in semi-annual installments at 2.00% interest over 30 years. The loan is collateralized by the Village’s water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Bank of Magnolia loan was used for the purchase of a truck for the Street Department. The loan will be repaid from the Street Construction, Maintenance and Repair fund in monthly installments at an interest rate of 4.00%.

Amortization

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

Year ending December 31:	Bank of Magnolia	OPWC CS08B	OPWC CS08P	OWDA 6724
2019	\$ 8,225	\$ 4,802	\$ 15,531	\$ 65,751
2020	-	-	15,531	65,751
2021	-	-	15,531	65,751
2022	-	-	15,531	65,751
2023	-	-	15,531	65,751
2024-2028	-	-	77,655	328,757
2029-2033	-	-	77,655	328,757
2034-2038	-	-	77,655	328,757
2039-2043	-	-	77,655	328,757
2044-2048	-	-	31,063	98,608
Total	<u>\$ 8,225</u>	<u>\$ 4,802</u>	<u>\$ 419,338</u>	<u>\$ 1,742,394</u>

Note 10 – Contingent Liabilities

The Village may be a defendant in lawsuits. Although management cannot presently determine the outcome of any suit, management believes that the resolution of any matter will not materially adversely affect the Village’s financial condition.

**VILLAGE OF EAST SPARTA
STARK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Property and Other Local Taxes	\$ 120,353	\$ 95,797	\$ 216,150
Intergovernmental	31,744	56,291	88,035
Charges for Services	2,800	40,318	43,118
Fines, Licenses and Permits	11,495	-	11,495
Earnings on Investments	445	71	516
Miscellaneous	1,414	254,100	255,514
<i>Total Cash Receipts</i>	<u>168,251</u>	<u>446,577</u>	<u>614,828</u>
Cash Disbursements			
Current:			
Security of Persons and Property	63,557	37,445	101,002
Public Health Services	5,246	-	5,246
Leisure Time Activities	-	45,711	45,711
Transportation	-	115,576	115,576
General Government	98,980	-	98,980
Capital Outlay	34,970	255,328	290,298
Debt Service:			
Principal Retirement	-	8,982	8,982
Interest & Fiscal Charges	-	888	888
<i>Total Cash Disbursements</i>	<u>202,753</u>	<u>463,930</u>	<u>666,683</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(34,502)	(17,353)	(51,855)
Other Financing Receipts (Disbursements)			
Sale of Capital Assets	6,319	-	6,319
<i>Total Other Financing Receipts (Disbursements)</i>	<u>6,319</u>	<u>-</u>	<u>6,319</u>
<i>Net Change in Fund Cash Balances</i>	(28,183)	(17,353)	(45,536)
<i>Fund Cash Balances, January 1</i>	<u>108,485</u>	<u>176,790</u>	<u>285,275</u>
Fund Cash Balances, December 31			
Restricted	-	145,888	145,888
Committed	-	13,549	13,549
Assigned	79,308	-	79,308
Unassigned	994	-	994
<i>Fund Cash Balances, December 31</i>	<u>\$ 80,302</u>	<u>\$ 159,437</u>	<u>\$ 239,739</u>

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

**VILLAGE OF EAST SPARTA
STARK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts	
Charges for Services	\$ 203,765
<i>Total Operating Cash Receipts</i>	203,765
Operating Cash Disbursements	
Personal Services	55,016
Fringe Benefits	8,523
Contractual Services	34,921
Supplies and Materials	51,479
<i>Total Operating Cash Disbursements</i>	149,939
<i>Operating Income (Loss)</i>	53,826
Non-Operating Receipts (Disbursements)	
Miscellaneous	10,143
Principal Retirement	(66,786)
Interest and Other Fiscal Charges	(28,740)
<i>Net Change in Fund Cash Balance</i>	(31,557)
<i>Fund Cash Balances, January 1</i>	85,927
<i>Fund Cash Balances, December 31</i>	\$ 54,370

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

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2017

Note 1 - Reporting Entity

The Village of East Sparta, Stark County, Ohio (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. A publicly-elected six-member Council directs the Village. The Village provides general governmental services such as water and sewer utilities, road and bridge maintenance, and park operations. The Village contracts with the Village of Magnolia for police protection services and with the East Sparta Volunteer Fire Department to receive fire protection services.

Public Entity Risk Pool

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program. Note 6 to the financial statements provides additional information for this entity.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

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

Fund Accounting

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

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

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

Roads and Bridges Fund The roads and bridges fund accounts for and reports the receipt of local tax monies to be used to pay Village employees for work performed on Village roads and bridges.

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Enterprise Fund 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 Fund:

Water Fund The water fund accounts for and reports the receipt of user charges for the provision of water treatment and distribution to the residents and commercial users located within the Village.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. Council 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 disbursements when a commitment is made (i.e., when an encumbrance is approved).

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

Budgetary Process

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

Appropriations Budgetary disbursements (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

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

Encumbrances The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2017 budgetary activity appears in Note 3.

Deposits and Investments

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

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Capital Assets

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

Accumulated Leave

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

Fund Balance

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

Nonspendable The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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

Committed The Council can *commit* amounts via formal action (ordinance or resolution). The Village must adhere to these commitments unless the Council amends the ordinance or resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by the Council or a Village official delegated that authority by resolution, or by State Statute. The Council may also assign fund balances as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget in the General Fund.

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

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

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2017

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 156,958	\$ 174,570	\$ 17,612
Special Revenue	481,148	446,577	(34,571)
Enterprise	300,000	213,908	(86,092)

2017 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 264,840	\$ 202,753	\$ 62,087
Special Revenue	655,692	468,230	187,462
Enterprise	366,949	246,965	119,984

Note 4 – Deposits and Investments

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

	2017
Demand deposits	\$ 294,109

Deposits

Deposits are insured by the Federal Depository Insurance Corporation or collateralized for 102 percent through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Note 5 – Taxes

Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts.

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2017

Note 5 – Taxes (continued)

Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

Note 6 - Risk Management

Workers' Compensation coverage is provided by the State of Ohio. The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Risk Pool Membership

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Pool is a separate legal entity per Section 2744 of the Ohio Revised Code. The Pool provides property and casualty insurance for its members. The Pool pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

The Pool cedes portions of its gross contribution written to a reinsurer under excess reinsurance agreements in order to limit its losses. Treaty basis excess-of-loss contracts in force protect the Pool against losses over the retention level; at March 31, 2017, retention levels are \$50,000 and \$100,000 for property and casualty coverages, respectively.

The Pool remains liable to the extent the reinsuring companies are unable to meet their contractual obligations under reinsurance agreements.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and accumulated surplus at March 31.

Assets	\$1,091,882
Liabilities	<u>(757,765)</u>
Accumulated Surplus	\$ <u>334,117</u>

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2017

Note 7 - Defined Benefit Pension Plans (continued)

Ohio Public Employees Retirement System (continued)

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2017.

Social Security

Three of the Village's Council members contribute to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2% of their gross salaries. The Village contributed an amount equal to 6.2% of participants' gross salaries. The Village has paid all contributions required through December 31, 2017.

Note 8 - Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 1% during calendar year 2017. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4% during calendar year 2017.

Note 9 – Debt

Debt outstanding at December 31, 2017 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Bank of Magnolia-Truck Purchase-2012	\$ 17,421	4.00%
OPWC Loan #CS08B	14,405	0.00%
OPWC Loan #CS08P	434,869	0.00%
OWDA Loan #6724-WTP, Storage Tank & Well Field	1,385,619	2.00%
OWDA Loan #3172-Water System Improvements	5,023	5.66%
Total	<u>\$ 1,857,338</u>	

The OPWC beginning balance was overstated by \$500,000, whereas the beginning OWDA balance was overstated by \$1,795 due to OWDA principal adjustment cost change.

The Ohio Public Works Commission (OPWC) Loan #CS08B relates to water improvements. The loan will be repaid in semi-annual installments of \$4,802 with no interest over 30 years. The loan is collateralized by the Village's water receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

Village of East Sparta
Stark County
Notes to the Financial Statements
For the Years Ended December 31, 2017

Note 9 – Debt (continued)

The OPWC Loan #CS08P relates to water improvements. The loan will be repaid in semi-annual installments of \$7,766 with no interest over 30 years. The loan is collateralized by the Village’s water receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

The Ohio Water Development Authority (OWDA) Loan #3172 relates to a water plan expansion project that was mandated by the Ohio Environmental Protection Agency. The loan will be repaid in semi-annual installments at 5.66% interest over 20 years. The loan is collateralized by the Village’s water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The OWDA Loan #6724 was entered into to finance or reimburse costs associated with the design and construction of the wastewater collection and treatment system. The loan will be repaid in semi-annual installments at 2.00% interest over 30 years. The loan is collateralized by the Village’s water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Bank of Magnolia loan was used for the purchase of a truck for the Street Department. The loan will be repaid from the Street Construction, Maintenance and Repair fund in monthly installments at an interest rate of 4.00%.

Amortization

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

Year ending December 31:	Bank of Magnolia	OPWC CS08B	OPWC CS08P	OWDA 3172	OWDA 6724
2018	\$ 9,871	\$ 9,603	\$ 15,531	\$ 5,225	\$ 65,751
2019	8,225	4,802	15,531	-	65,751
2020	-	-	15,531	-	65,751
2021	-	-	15,531	-	65,751
2022	-	-	15,531	-	65,751
2023-2027	-	-	77,655	-	328,757
2028-2032	-	-	77,655	-	328,757
2033-2037	-	-	77,655	-	328,757
2038-2042	-	-	77,655	-	328,757
2043-2047	-	-	46,594	-	164,362
Total	<u>\$ 18,096</u>	<u>\$ 14,405</u>	<u>\$ 434,869</u>	<u>\$ 5,225</u>	<u>\$ 1,808,145</u>

Note 10 – Contingent Liabilities

The Village may be a defendant in lawsuits. Although management cannot presently determine the outcome of any suit, management believes that the resolution of any matter will not materially adversely affect the Village’s financial condition.

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

Village of East Sparta
Stark County
9353 Main Street
East Sparta, OH 44626

To the Village Council:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of East Sparta, Stark County (the Village) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements and have issued our report thereon dated May 31, 2019, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider a material weakness. We consider finding 2018-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.


We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated May 31, 2019.

Entity's Response to Finding

The Village's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. We did not subject the Village's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Charles E. Harris and Associates, Inc.
May 31, 2019

**VILLAGE OF EAST SPARTA
STARK COUNTY**

**SCHEDULE OF FINDINGS
December 31, 2018 and 2017**

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

Finding Number 2018-001 - Material Weakness

During 2018 and 2017, the Village erroneously recorded several transactions. The more significant adjustments are as follows:

- Recorded the sale of equipment as miscellaneous receipts instead of sale of capital assets.
- Recorded the purchase of a vehicle and land improvements as general government instead of capital outlay.
- Recorded assessment collected by the county auditor as charges for service instead of special assessment.
- Recorded expenses related to the volunteer fire department as public health services instead of security of person and property.
- Did not properly classify fund balances in accordance with Governmental Accounting Standards Board (GASB) Statement 54.

Various other immaterial posting errors were also noted and brought to the attention of management. Adjustments were made in the financial statements and Village records. Due to the above adjustments and incorrect information provided, additional changes were made to the footnotes.

The Village Officers' Handbook and the UAN manual provide suggested account classifications. These accounts classify receipts by fund and source (taxes or charges for services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance and with the budget and prepare annual reports in the format required by the Auditor of State.

We recommend that the Fiscal Officer refer to the Village Officer's Handbook, GASB Statement 54, Audit Bulletin 2011-004, the UAN manual and other Auditor of State guidance to properly classify its transactions. We also recommend the Fiscal Officer review all reports compiled by UAN to ensure their accuracy. Further, management should review all debt activity for the year and post to a spreadsheet to accurately track outstanding balances and payments that are due.

Management Response:

See Corrective Action Plan

**VILLAGE OF EAST SPARTA
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
For the Years Ended December 31, 2018 and 2017
Prepared by Management**

Finding Number	Finding Summary	Status	Additional Information
2016-001	Adjustments to financial statements	Not corrected	Due to oversight, it is repeated as Finding 2018-001

**VILLAGE OF EAST SPARTA
STARK COUNTY**

**CORRECTIVE ACTION PLAN
For the Years Ended December 31, 2018 and 2017
Prepared by Management**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	We reviewed the finding and believe we have corrected them in 2019.	Immediately	Doug Neading, Clerk/Treasurer

This page intentionally left blank.

OHIO AUDITOR OF STATE
KEITH FABER



VILLAGE OF EAST SPARTA

STARK 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
JULY 25, 2019**