



**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2000-1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF SINKING SPRING
HIGHLAND COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Village of Sinking Spring
Highland County
Post Office Box 12
Sinking Spring, Ohio 45172

To the Village Council:

We have audited the accompanying financial statements of the Village of Sinking Spring, Highland County, Ohio (the Village), as of and for the years ended December 31, 2000 and 1999. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2000 and 1999, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2001, 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 management, the Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

April 30, 2001

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VILLAGE OF SINKING SPRING
HIGHLAND COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$3,128	\$544	\$0	\$3,672
Intergovernmental	26,267	3,956	75,625	105,848
Miscellaneous	586	0	5,818	6,404
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	29,981	4,500	81,443	115,924
Cash Disbursements:				
Current:				
Security of Persons and Property	3,195	0	0	3,195
Public Health Services	1,672	0	0	1,672
Basic Utility Services	775	0	0	775
Transportation	0	4,350	0	4,350
General Government	6,456	0	0	6,456
Capital Outlay	0	0	165,521	165,521
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	12,098	4,350	165,521	181,969
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	17,883	150	(84,078)	(66,045)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>	<hr/>
	57,831	8,250	162,006	228,087
Fund Cash Balances, December 31	<hr/>	<hr/>	<hr/>	<hr/>
	\$75,714	\$8,400	\$77,928	\$162,042

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

VILLAGE OF SINKING SPRING
HIGHLAND COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$3,476	\$615	\$0	\$4,091
Intergovernmental	25,360	3,936	162,000	191,296
Miscellaneous	2,052	0	6	2,058
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	30,888	4,551	162,006	197,445
Cash Disbursements:				
Current:				
Security of Persons and Property	3,282	0	0	3,282
Public Health Services	1,686	0	0	1,686
Basic Utility Services	802	0	0	802
Transportation	5,000	5,188	0	10,188
General Government	28,876	0	0	28,876
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	39,646	5,188	0	44,834
Total Receipts Over/(Under) Disbursements	<u>(8,758)</u>	<u>(637)</u>	<u>162,006</u>	<u>152,611</u>
Fund Cash Balances, January 1	<u>66,589</u>	<u>8,887</u>	<u>0</u>	<u>75,476</u>
Fund Cash Balances, December 31	<u>\$57,831</u>	<u>\$8,250</u>	<u>\$162,006</u>	<u>\$228,087</u>

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

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Sinking Spring, Highland County, Ohio (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services including street maintenance.

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 Deposits

The Village deposits all available funds in a "Now" checking account and savings account with commercial banks.

D. Fund Accounting

The Village uses fund accounting to segregate cash and deposits 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 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 for constructing, maintaining and repairing Village streets.

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

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permissive Motor Vehicle License Tax Fund - This fund receives proceeds from taxes levied on all motor vehicle license sold in the Village for street maintenance and repairs.

3. Capital Projects Fund

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Funds:

Infrastructure Fund - This fund received a Rural Areas Community Improvement Grant from the Ohio Department of Administrative Services for water line extensions into the Village.

Community Development Block Grant Fund - This fund received a Water and Sanitary Sewer Competitive Community Development Block Grant from the Ohio Department of Development for water line extensions into the Village.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. No encumbrances were reported to the County Budget Commission for consideration in certifying the estimated resources available for appropriations.

A summary of 2000 and 1999 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.

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

2. EQUITY IN POOLED CASH AND DEPOSITS

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

	<u>2000</u>	<u>1999</u>
Demand deposits	\$84,220	\$66,081
Savings account	77,822	2,006
Certificates of deposit	<u>0</u>	<u>160,000</u>
Total deposits	<u>\$162,042</u>	<u>\$228,087</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2000 and 1999, follows:

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$31,153	\$29,981	(\$1,172)
Special Revenue	2,700	4,500	1,800
Capital Projects	<u>162,007</u>	<u>81,443</u>	<u>(80,564)</u>
Total	<u>\$195,860</u>	<u>\$115,924</u>	<u>(\$79,936)</u>

Contrary to Ohio law, Capital Projects budgeted receipts exceeded actual receipts during 2000. The Village showed the \$162,000 Rural Areas Community Improvement Grant as estimated receipts on the amended certificate for 2000, when this grant had already been received in the prior year.

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$56,146	\$12,098	\$44,048
Special Revenue	5,500	4,350	1,150
Capital Projects	<u>0</u>	<u>165,521</u>	<u>(165,521)</u>
Total	<u>\$61,646</u>	<u>\$181,969</u>	<u>(\$120,323)</u>

Contrary to Ohio law, Capital Projects Funds expenditures during 2000 exceeded the appropriation authority. The Village Council did not make appropriations for the expenditures of the Rural Areas Community Improvement Grant or the Water and Sanitary Sewer Competitive Grant monies received. The Village did not formally establish a fund as required by Ohio Rev. Code, Section 5705.09(F), and therefore did not establish the required budgetary authority.

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

1999 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$25,817	\$30,888	\$5,071
Special Revenue	2,700	4,551	1,851
Capital Projects	0	162,006	162,006
Total	\$28,517	\$197,445	\$168,928

1999 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$63,740	\$39,646	\$24,094
Special Revenue	6,800	5,188	1,612
Capital Projects	0	0	0
Total	\$70,540	\$44,834	\$25,706

The Village did not obtain prior certification of the fiscal officer for all purchases nor were commitments properly encumbered as required by the Ohio Revised Code Section 5705.41(D).

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. RETIREMENT SYSTEMS

The Village's officials contribute to Social Security. Contribution rates for 2000 and 1999 were 6.2% for employee and employer. The Village has no employees.

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

6. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risk:

- Comprehensive property and General liability

7. PLEASANT HILL AND GOVERNOR BYRD JOINT CEMETERIES

The Pleasant Hill and Governor Byrd Joint Cemeteries is operated under the direction of a Joint Cemetery Board of which one board member is appointed by the Village Council, one member from Brushcreek Township, and one member from the general public. The Village of Sinking Spring and Brushcreek Township each contribute \$1,500 annually to the operation of the Cemetery. This contribution is determined by an annual joint meeting of the Village Council and Township Trustees.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Village of Sinking Spring
Highland County
Post Office Box 12
Sinking Spring, Ohio 45172

To the Village Council:

We have audited the accompanying financial statements of the Village of Sinking Spring, Highland County, Ohio (the Village), as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated April 30, 2001. We conducted our audit in accordance with generally accepted auditing standards 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-30436-001 through 2000-30436-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated April 30, 2001.

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 the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2000-30436-004 through 2000-30436-006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2000-30436-004 and 2000-30436-005 to be a material weaknesses. We also noted other

Village of Sinking Spring
Highland County
Report on Compliance and on Internal Control Required by
Government Auditing Standards
Page 2

matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated April 30, 2001.

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

Jim Petro
Auditor of State

April 30, 2001

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2000 AND 1999**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2000-30436-001

Noncompliance Citation

Ohio Rev. Code, 5705.09(F), requires a special fund for each class of revenues derived from a source other than the general property tax, which the laws requires to be used for a particular purpose. Council did not make a resolution to establish Capital Projects Funds for the Rural Areas Community Improvement Grant from the Ohio Department of Administrative Services or the Water and Sanitary Sewer Competitive Community Development Block Grant from the Ohio Department of Development. We recommend that the Village follow the guidance on the accounting treatment for these types of transactions which are set forth in Auditor of State Bulletin 2000-08 and.MAS Bulletin 89-17.

FINDING NUMBER 2000-30436-002

Noncompliance Citation

Ohio Rev. Code, Section 5705.36, requires that a increased amended certificate be obtained if the legislative authority intends to appropriate and expend the excess revenue. Actual receipts of \$75,625 exceeded estimated receipts of \$0 resulting in a variance of \$75,625 in the Sanitary Sewer Competitive Community Development Block Grant for FY ending December 31, 2000. This grant was not included on an amended certificate as estimated receipts and was not appropriated; however, the grant funds were expended.

FINDING NUMBER 2000-30436-003

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. Expenditures exceeded appropriations for the Rural Areas Community Improvement Grant and the Water and Sanitary Sewer Competitive Grant for FY ending December 31, 2000, because Council failed to make any appropriations for these grants. Since no appropriations were adopted by Village Council, expenditures exceeded appropriations by \$75,625.

FINDING NUMBER 2000-30436-004

Noncompliance Citation/Material Weakness

Ohio Rev. Code, 5705.41(D), provides that a subdivision or taxing unit shall not make any contract or order involving the disbursement of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment.

This Section also provides two exceptions to the above requirements:

1. 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 the fiscal officer is completing the certification, sufficient funds were available or in the process of collection, to the credit of a proper

**FINDING NUMBER 2000-30436-004
(Continued)**

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 payment by resolution or ordinance.

2. Amounts of less than \$1,000 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.

Of the expenditures tested, 26% did not contain either the prior certification or then and now certification of the fiscal officer. The Clerk's certificate was not obtained for any of the expenditures from the Rural Areas Community Improvement Grant or the Water and Sanitary Sewer Competitive Community Development Block Grant.

The Clerk's certification is not only required by Ohio law, but is also a key control in the disbursement process. Without proper certification of funds, disbursements could be made without adequate current resources being available, or disbursements could be made in excess of authorized appropriations. Prior certification should be obtained for all disbursements. In instances when prior certifications are not practical, 'then and now' certifications should be made.

FINDING NUMBER 2000-30436-005

Material Weakness

The following deficiencies were found in the annual financial reports:

2000 Annual Financial Report and 1999 Annual Financial Report

- Special Revenue Fund balances were not shown on the Combining Statements.
- When totaled, the Special Revenue Funds on the Combining Statement did not agree with the amounts reported on the Combined Statements.
- Beginning fund balances were reported as reserve for encumbrances of preceding year on the Comparison of Disbursements and Encumbrances With Budgetary Authority.
- Ending fund balances were reported as reserve for encumbrances as of year end on the Comparison of Disbursements and Encumbrances With Budgetary Authority.

2000 Annual Financial Report

- Some receipts and disbursement from the Rural Areas Community Improvement Grant and the Water and Sanitary Sewer Competitive Community Development Block Grant were reported in a Special Revenue Fund called State Grant Fund on the Combining Statement. The grant activity should have been reported as individual Capital Projects Funds.
- Of the amounts reported for the grant funds, \$90,000 in receipts had been received in 1999, not 2000 (as reported), and none of the interest earned in 2000 was reported.
- Appropriations reported on the Comparison of Disbursements and Encumbrances With Budgetary Authority did not agree with the appropriations adopted by Council.

FINDING NUMBER 2000-30436-005
(Continued)

- Estimated receipts reported on the comparison of Budgeted and Actual Receipts did not agree with the amounts certified by the Budget Commission for the General Fund.
- General Fund actual receipts reported on the Comparison of Budgeted and Actual Receipts did not agree with General Fund receipts reported on the Combined Statement.
- Street Construction Maintenance and Repair Fund receipts were reported as expenditures on the Comparison of Budgeted and Actual Receipts.

1999 Annual Financial Report

- The Rural Areas Community Improvement Grant was not reported on the Combined or Combining Statements.
- Estimated receipts reported on the Comparison of Budgeted and Actual Receipts did not agree with the amounts certified by the Budget Commission.

Proper care should be given to the preparation and completion of the annual financial report. Since this report is the presentation of the Village's financial position, it is important that the report fairly and accurately present the Village's true financial position. This report is used by management to make informed decisions in the operations of the Village. Failure to maintain, present, and monitor financial records could result in loss or unauthorized diversion of Village funds, which could go undetected without adequate reporting of financial activity. Improper reporting could also result in ineffective expenditure of Village funds. We recommend that the Village Council and/or audit committee review the annual financial reports for completeness and accuracy before the reports are filed with the State. The financial statements have been adjusted to reflect the differences above properly.

FINDING NUMBER 2000-30436-006

Reportable Condition

Invoices are approved for payment in the minute records; however, the vouchers do not indicate evidence of review or approval. Payment was made on a particular street paving invoice both to the County Commissioners and to the vendor. In this case, the Commissions caught the overpayment and refunded the payment to the Village. To improve controls over expenditures and to reduce the risk of loss of public funds, invoices should be reviewed by at least two Council members. Council members should sign the voucher as evidence that the invoices has been reviewed and approved for payment.



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VILLAGE OF SINKING SPRING

HIGHLAND 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
JUNE 5, 2001**