



**Auditor of State
Betty Montgomery**

VILLAGE OF SINKING SPRING
HIGHLAND COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Sinking Spring
Highland County
P.O. 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, 2002 and 2001. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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, 2002 and 2001, 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 7, 2003 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the audit committee, management, Village Council and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 7, 2003

**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, 2002**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$3,776	\$294	\$0	\$4,070
Intergovernmental Receipts	25,301	4,125	34,000	63,426
Earnings on Investments	383	2	811	1,196
Miscellaneous	20,000			20,000
Total Cash Receipts	<u>49,460</u>	<u>4,421</u>	<u>34,811</u>	<u>88,692</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	4,173			4,173
Public Health Services	1,727			1,727
Basic Utility Services	751			751
General Government	10,433	180		10,613
Capital Outlay	0		101,454	101,454
Total Cash Disbursements	<u>17,084</u>	<u>180</u>	<u>101,454</u>	<u>118,718</u>
Total Receipts Over/(Under) Disbursements	<u>32,376</u>	<u>4,241</u>	<u>(66,643)</u>	<u>(30,026)</u>
 Fund Cash Balances, January 1	 <u>70,253</u>	 <u>5,746</u>	 <u>151,321</u>	 <u>227,320</u>
Fund Cash Balances, December 31	<u><u>\$102,629</u></u>	<u><u>\$9,987</u></u>	<u><u>\$84,678</u></u>	<u><u>\$197,294</u></u>

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, 2001**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$3,355	\$567	\$0	\$3,922
Intergovernmental Receipts	27,451	3,619	160,300	191,370
Earnings on Investments	757		1,094	1,851
Miscellaneous	72			72
Total Cash Receipts	<u>31,635</u>	<u>4,186</u>	<u>161,394</u>	<u>197,215</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	4,240			4,240
Public Health Services	1,714			1,714
Basic Utility Services	1,000			1,000
Transportation	19,500	6,700		26,200
General Government	10,642	140		10,782
Capital Outlay			88,001	88,001
Total Cash Disbursements	<u>37,096</u>	<u>6,840</u>	<u>88,001</u>	<u>131,937</u>
Total Receipts Over/(Under) Disbursements	<u>(5,461)</u>	<u>(2,654)</u>	<u>73,393</u>	<u>65,278</u>
Fund Cash Balances, January 1	<u>75,714</u>	<u>8,400</u>	<u>77,928</u>	<u>162,042</u>
Fund Cash Balances, December 31	<u><u>\$70,253</u></u>	<u><u>\$5,746</u></u>	<u><u>\$151,321</u></u>	<u><u>\$227,320</u></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, 2002 AND 2001**

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 "Public Funds Now" checking account and a 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 Fund

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair Fund

This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

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, 2002 AND 2001
(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 Project Funds

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 commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. At year end there were no material encumbrances outstanding. The Village did not encumber all commitments required by Ohio law.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. The carrying amount of cash at December 31 was as follows:

	2002	2001
Demand deposits	\$117,573	\$148,410
Certificates of deposit	79,721	78,910
Total deposits	\$197,294	\$227,320

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$30,087	\$49,460	\$19,373
Special Revenue	2,700	4,421	1,721
Capital Projects	34,000	34,811	811
Total	\$66,787	\$88,692	\$21,905

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$50,540	\$17,084	\$33,456
Special Revenue	5,000	180	4,820
Capital Projects	185,320	101,454	83,866
Total	\$240,860	\$118,718	\$122,142

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$28,825	\$31,635	\$2,810
Special Revenue	2,700	4,186	1,486
Capital Projects	160,300	161,394	1,094
Total	\$191,825	\$197,215	\$5,390

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$75,000	\$37,096	\$37,904
Special Revenue	7,700	6,840	860
Capital Projects	0	88,001	(88,001)
Total	\$82,700	\$131,937	(\$49,237)

Contrary to Ohio law, Capital Projects Funds expenditures during 2001 exceeded the appropriation authority. The Village Council did not make appropriations for the expenditures of the Infrastructure Fund or the Community Development Block Grant Fund. Also contrary to Ohio law, the Village did not obtain prior certification of the fiscal officer for all purchases.

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 payments, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

5. RETIREMENT SYSTEMS

The Village's officials contribute to Social Security. Contribution rates for 2002 and 2001 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, 2002 AND 2001
(Continued)**

6. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability

7. PLEASANT HILL AND GOVERNOR BYRD JOINT CEMETERIES

The Pleasant Hill and Governor Byrd Joint Cemeteries are 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 toward the operation of the cemeteries. The contributions are determined at the annual joint meeting of the Village Council and Township Trustees.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Sinking Spring
Highland County
P.O. 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, 2002 and 2001, and have issued our report thereon dated April 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-30436-001 through 2002-30436-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated April 7, 2003.

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 2002-30436-002 and 2002-30436-003.

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 considered item 2002-30436-003 to be a material weakness.

We also noted other 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 7, 2003.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 7, 2003

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-30436-001

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 Infrastructure Fund and the Community Development Block Grant Fund for the year ending December 31, 2001, because Council failed to make any appropriations to these funds. Since no appropriations were adopted by Council, expenditures exceeded appropriations by \$112 in the Infrastructure Fund and by \$87,889 in the Community Development Block Grant Fund. Council corrected this problem in 2002 by making appropriations to these funds.

FINDING NUMBER 2002-30436-002

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 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 pervious 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:

- A. 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 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.
- B. 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, 55% did not contain either the prior certification or then and now certification of the fiscal officer.

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 2002-30436-003

Material Weakness

The annual financial reports for the years ending December 31, 2002 and 2001 were not accurately completed and contained many errors and deficiencies. Rather than making the numerous adjustments that would have been necessary to correct the deficiencies and mispostings to the annual reports, we recreated the accompanying financial statements from the Village's cash book, receipts ledger, and appropriation ledger.

Proper care should be given to the preparation and completion of the annual financial reports. It is important that these annual financial reports fairly and accurately present the Village's financial activity since these reports may be used by management or others to make informed decisions in the operations of the Village. Failure to maintain, present, and monitor financial records could result in misuse, loss, or unauthorized diversion of Village funds, which could go undetected without adequate reporting of financial activity. Improper reporting could also result in ineffective or unauthorized expenditure of Village funds.

We recommend that the Clerk carefully review the instructions and the headings in the annual report to assure information is reported in the proper places, and that all of the total columns. We also recommend that Village Council and/or the audit committee review the annual financial reports for completeness and accuracy before the reports are filed with the State.

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-30436-001	Capital Projects Funds for the Rural Areas Community Improvement Grant and the CDBG Grant not established	Yes	
2000-30436-002	CDBG funds expended but were not included on amended certificate and were not appropriated	Yes	
2000-30436-003	Expenditures exceeded appropriations	No	Not corrected – Repeated as 2002-30436-001
2000-30436-004	Prior certification no obtained for purchase commitments	No	Not corrected – Repeated as 2002-30436-002
2000-30436-005	Annual report not properly completed	No	Not corrected – Repeated as 2002-30436-003
2000-30436-006	Council did not sign vouchers	No	Not corrected – Repeated in management letter.



**Auditor of State
Betty Montgomery**

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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
MAY 8, 2003**