



**Auditor of State
Betty Montgomery**

VILLAGE OF SINKING SPRING
HIGHLAND COUNTY

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**Auditor of State
Betty Montgomery**

Village of Sinking Spring
Highland County
10 North Main Street
Sinking Spring, Ohio 45172

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Betty Montgomery
Auditor of State

October 27, 2005

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Sinking Spring
Highland County
10 North Main Street
Sinking Spring, Ohio 45172

To the Village Council:

We have audited the accompanying financial statements of Village of Sinking Spring, Highland County, Ohio (the Village), as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Village'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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

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

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

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of Sinking Spring, Highland County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

October 27, 2005

**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, 2004**

	<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	\$6,543	\$728	\$0	\$7,271
Intergovernmental Receipts	25,481	5,355		30,836
Earnings on Investments	1,629			1,629
Total Cash Receipts	<u>33,653</u>	<u>6,083</u>	<u>0</u>	<u>39,736</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	3,508			3,508
Public Health Services	1,781			1,781
Basic Utility Services	752			752
Transportation	8,000	1,697		9,697
General Government	7,381			7,381
Total Cash Disbursements	<u>21,422</u>	<u>1,697</u>	<u>0</u>	<u>23,119</u>
Excess of Cash Receipts Over Cash Disbursements	12,231	4,386	0	16,617
Fund Cash Balances, January 1	<u>95,111</u>	<u>13,312</u>	<u>24,754</u>	<u>133,177</u>
Fund Cash Balances, December 31	<u>\$107,342</u>	<u>\$17,698</u>	<u>\$24,754</u>	<u>\$149,794</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, 2003**

	<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	\$6,460	\$606	\$0	\$7,066
Intergovernmental Receipts	25,433	4,309		29,742
Earnings on Investments	782			782
Miscellaneous	9		330	339
	<u>32,684</u>	<u>4,915</u>	<u>330</u>	<u>37,929</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	3,819			3,819
Public Health Services	1,818			1,818
Basic Utility Services	766			766
Transportation	19,000	1,590		20,590
General Government	14,799			14,799
Capital Outlay			60,254	60,254
	<u>40,202</u>	<u>1,590</u>	<u>60,254</u>	<u>102,046</u>
Total Cash Disbursements				
Excess of Cash Receipts Over/(Under) Cash Disbursements	(7,518)	3,325	(59,924)	(64,117)
Fund Cash Balances, January 1	<u>102,629</u>	<u>9,987</u>	<u>84,678</u>	<u>197,294</u>
Fund Cash Balances, December 31	<u>\$95,111</u>	<u>\$13,312</u>	<u>\$24,754</u>	<u>\$133,177</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, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Sinking Spring, Highland County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council governs the Village. 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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis 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 expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements adequately disclose material matters the Auditor of State prescribes.

C. Cash and Deposits

The Village deposits all available funds in a "Public Funds Now" checking account at a local commercial bank.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds 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 tax money for constructing, maintaining, and repairing Village streets.

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permissive Motor Vehicle License Tax Fund - This fund receives proceeds the permissive tax levied by the Village and by Highland County on motor vehicle license for street maintenance and repairs.

3. Capital Project Fund

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following capital project fund

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.

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. 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. There were no encumbrances outstanding at December 31, 2004 or 2003.

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

F. Property, Plant, and Equipment

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

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2004</u>	<u>2003</u>
Demand deposits	\$149,794	\$133,177

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, 2004 ad 2003 follows:

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$56,200	\$33,653	(\$22,547)
Special Revenue	2,700	6,083	3,383
Total	<u>\$58,900</u>	<u>\$39,736</u>	<u>(\$19,164)</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$39,640	\$21,422	\$18,218
Special Revenue	6,493	1,697	4,796
Total	<u>\$46,133</u>	<u>\$23,119</u>	<u>\$23,014</u>

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$28,120	\$32,684	\$4,564
Special Revenue	2,700	4,915	2,215
Capital Projects	0	330	330
Total	<u>\$30,820</u>	<u>\$37,929</u>	<u>\$7,109</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$60,840	\$40,202	\$20,638
Special Revenue	6,600	1,590	5,010
Capital Projects	84,677	60,254	24,423
Total	<u>\$152,117</u>	<u>\$102,046</u>	<u>\$50,071</u>

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment 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

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

5. RETIREMENT SYSTEMS

The Village's officials contribute to Social Security. Contribution rates for 2004 and 2003 were 6.2% for employee and employer. The Village has no employees.

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.



**Auditor of State
Betty Montgomery**

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

Village of Sinking Spring
Highland County
10 North Main Street
Sinking Spring, Ohio 45172

To the Village Council:

We have audited the financial statements of the Village of Sinking Spring, Highland County, Ohio (the Village), as of and for the year ended December 31, 2004 and 2003, and have issued our report thereon dated October 27, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated October 27, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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, providing an opinion 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*. In a separate letter to the Village's management dated October 27, 2005, we reported other matters related to noncompliance we deemed immaterial.

Village of Sinking Spring
Highland County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, and Village Council. It is not intended for 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

October 27, 2005

**VILLAGE OF SINKING SPRING
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 and 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-30436-001	Ohio Revised Code, Section 5705.41(B) expenditures exceeded appropriations	Yes	
2002-30436-002	Ohio Revised Code, Section 5705.41(D)	No	Reissued in Management Letter
2002-30436-003	Annual financial report not properly completed	No	Reissued in Management Letter



**Auditor of State
Betty Montgomery**

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800-282-0370
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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
NOVEMBER 10, 2005**