



**Auditor of State
Betty Montgomery**

VILLAGE OF SARDINIA
BROWN COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Sardinia
Brown County
151 Maple Ave.
Sardinia, Ohio 45171

To the Village Council:

We have audited the accompanying financial statements of the Village of Sardinia, Brown County, Ohio (the Village), as of and for the years ended December 31, 2003 and 2002. 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.

The Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

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 and reserves for encumbrances of the Village as of December 31, 2003 and 2002, 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 September 27, 2004 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 management, 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.

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

Betty Montgomery
Auditor of State

September 27, 2004

**VILLAGE OF SARDINIA
BROWN 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>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Property Tax and Other Local Taxes	\$6,007	\$110,087	\$0	\$0	\$116,094
Intergovernmental Receipts	20,965	43,883		154,780	219,628
Charges for Services		29,872		32,244	62,116
Fines, Licenses, and Permits	4,947	3,370			8,317
Earnings on Investments	1,978	52			2,030
Miscellaneous	3,685	6,177		2,321	12,183
Total Cash Receipts	<u>37,582</u>	<u>193,441</u>	<u>0</u>	<u>189,345</u>	<u>420,368</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	8,397	81,948			90,345
Public Health Services	1,431	14,792			16,223
Transportation		39,793			39,793
General Government	51,596	13,037			64,633
Debt Service:					
Principal Payments	82,000	19,000	9,156		110,156
Interest Payments	1,060		4,305		5,365
Capital Outlay		57,495		275,607	333,102
Total Cash Disbursements	<u>144,484</u>	<u>226,065</u>	<u>13,461</u>	<u>275,607</u>	<u>659,617</u>
Total Receipts (Under) Disbursements	<u>(106,902)</u>	<u>(32,624)</u>	<u>(13,461)</u>	<u>(86,262)</u>	<u>(239,249)</u>
Other Financing Receipts and (Disbursements):					
Sale of Bond Anticipation Notes	75,000	19,000		125,000	219,000
Transfers-In	57,860	36,500			94,360
Transfers-Out	(36,500)	(57,860)	0	0	(94,360)
Total Other Financing Receipts/(Disbursements)	<u>96,360</u>	<u>(2,360)</u>	<u>0</u>	<u>125,000</u>	<u>219,000</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(10,542)</u>	<u>(34,984)</u>	<u>(13,461)</u>	<u>38,738</u>	<u>(20,249)</u>
Fund Cash Balances, January 1	<u>17,640</u>	<u>89,761</u>	<u>13,802</u>	<u>4,585</u>	<u>125,788</u>
Fund Cash Balances, December 31	<u>\$7,098</u>	<u>\$54,777</u>	<u>\$341</u>	<u>\$43,323</u>	<u>\$105,539</u>
Reserves for Encumbrances, December 31	<u>\$1,069</u>	<u>\$2,843</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,912</u>

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

**VILLAGE OF SARDINIA
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	<u>Agency</u>	
Operating Cash Receipts:				
Charges for Services	\$305,011	\$0	\$0	\$305,011
Total Operating Cash Receipts	<u>305,011</u>	<u>0</u>	<u>0</u>	<u>305,011</u>
Operating Cash Disbursements:				
Personal Services	60,154			60,154
Fringe Benefits	17,398			17,398
Contractual Services	127,976			127,976
Supplies and Materials	38,197			38,197
Other	7,759			7,759
Capital Outlay	181,394			181,394
Total Operating Cash Disbursements	<u>432,878</u>	<u>0</u>	<u>0</u>	<u>432,878</u>
Operating (Loss)	<u>(127,867)</u>	<u>0</u>	<u>0</u>	<u>(127,867)</u>
Non-Operating Cash Receipts:				
Proceeds from Bond Anticipation Notes	25,000			25,000
OWDA Loan Proceeds	171,338			171,338
Other Non-Operating Receipts	4,380		8,627	13,007
Total Non-Operating Cash Receipts	<u>200,718</u>	<u>0</u>	<u>8,627</u>	<u>209,345</u>
Non-Operating Cash Disbursements:				
Debt Service	114,568			114,568
Other Non-Operating Cash Disbursements			8,627	8,627
Total Non-Operating Cash Disbursements	<u>114,568</u>	<u>0</u>	<u>8,627</u>	<u>123,195</u>
Excess of Receipts (Under) Disbursements Before Interfund Transfers	(41,717)	0	0	(41,717)
Transfers-In	20,000			20,000
Transfers-Out	(20,000)			(20,000)
Net Receipts (Under) Disbursements	(41,717)	0	0	(41,717)
Fund Cash Balances, January 1	<u>126,538</u>	<u>6,375</u>		<u>132,913</u>
Fund Cash Balances, December 31	<u>\$84,821</u>	<u>\$6,375</u>	<u>\$0</u>	<u>\$91,196</u>
Reserve for Encumbrances, December 31	<u>\$3,122</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,122</u>

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

**VILLAGE OF SARDINIA
BROWN 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>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Property Tax and Other Local Taxes	\$5,076	\$121,998	\$0	\$0	\$127,074
Intergovernmental Receipts	20,976	41,965		8,000	70,941
Charges for Services	25	47,194		12,500	59,719
Fines, Licenses, and Permits	11,358	6,330			17,688
Earnings on Investments	3,050	94			3,144
Miscellaneous	10,326	4,497			14,823
Total Cash Receipts	<u>50,811</u>	<u>222,078</u>	<u>0</u>	<u>20,500</u>	<u>293,389</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	8,309	99,631			107,940
Public Health Services	1,152	23,617			24,769
Transportation		33,840			33,840
General Government	53,532	15,927			69,459
Debt Service:					
Principal Payments	80,000	26,000	7,906	32,000	145,906
Interest Payments	3,560	1,258	6,606	1,817	13,241
Capital Outlay		17,115		14,516	31,631
Total Cash Disbursements	<u>146,553</u>	<u>217,388</u>	<u>14,512</u>	<u>48,333</u>	<u>426,786</u>
Total Receipts Over/(Under) Disbursements	<u>(95,742)</u>	<u>4,690</u>	<u>(14,512)</u>	<u>(27,833)</u>	<u>(133,397)</u>
Other Financing Receipts and (Disbursements):					
Sale of Bond Anticipation Notes	75,000	26,000			101,000
Transfers-In	42,500	39,287	20,000		101,787
Transfers-Out	(39,287)	(42,500)			(81,787)
Total Other Financing Receipts/(Disbursements)	<u>78,213</u>	<u>22,787</u>	<u>20,000</u>	<u>0</u>	<u>121,000</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(17,529)</u>	<u>27,477</u>	<u>5,488</u>	<u>(27,833)</u>	<u>(12,397)</u>
Fund Cash Balances, January 1	<u>35,169</u>	<u>62,284</u>	<u>8,314</u>	<u>32,418</u>	<u>138,185</u>
Fund Cash Balances, December 31	<u>\$17,640</u>	<u>\$89,761</u>	<u>\$13,802</u>	<u>\$4,585</u>	<u>\$125,788</u>
Reserves for Encumbrances, December 31	<u>\$635</u>	<u>\$1,872</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,507</u>

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

**VILLAGE OF SARDINIA
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$308,301	\$0	\$0	\$308,301
Miscellaneous	5,388			5,388
Total Operating Cash Receipts	<u>313,689</u>	<u>0</u>	<u>0</u>	<u>313,689</u>
Operating Cash Disbursements:				
Personal Services	59,376			59,376
Fringe Benefits	14,149			14,149
Contractual Services	128,322			128,322
Supplies and Materials	13,562			13,562
Other	1,731			1,731
Capital Outlay	22,574			22,574
Total Operating Cash Disbursements	<u>239,714</u>	<u>0</u>	<u>0</u>	<u>239,714</u>
Operating Income	<u>73,975</u>	<u>0</u>	<u>0</u>	<u>73,975</u>
Non-Operating Cash Receipts:				
Intergovernmental Receipts	21,485			21,485
Earnings on Investments	206			206
Proceeds from Bond Anticipation Notes	37,000			37,000
Sale of Land	70,845			70,845
Other Non-Operating Receipts			21,368	21,368
Total Non-Operating Cash Receipts	<u>129,536</u>	<u>0</u>	<u>21,368</u>	<u>150,904</u>
Non-Operating Cash Disbursements:				
Debt Service	156,917			156,917
Other Non-Operating Cash Disbursements			21,368	21,368
Total Non-Operating Cash Disbursements	<u>156,917</u>	<u>0</u>	<u>21,368</u>	<u>178,285</u>
Excess of Receipts Over Disbursements Before Interfund Transfers	46,594	0	0	46,594
Transfers-In	8,101			8,101
Transfers-Out	(28,101)			(28,101)
Net Receipts Over Disbursements	26,594	0	0	26,594
Fund Cash Balances, January 1	99,944	6,375		106,319
Fund Cash Balances, December 31	<u>\$126,538</u>	<u>\$6,375</u>	<u>\$0</u>	<u>\$132,913</u>
Reserve for Encumbrances, December 31	<u>\$1,603</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,603</u>

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

**VILLAGE OF SARDINIA
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Sardinia, Brown 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 road maintenance, police and fire protection, water and sewer utilities and refuse collection.

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 Deposits

The Village maintains all available funds in an interest-bearing checking account and certificate of deposit which is valued at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash 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.

Fire Fund - This fund receives local taxes and revenues from contracts with other political subdivisions to provide fire protection.

**VILLAGE OF SARDINIA
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Police Fund – This fund’s income is derived from taxes levied by the Village to pay the salaries of Village police officers

Income Tax Fund - This fund is used to account for receipts derived from the Village income tax ordinance. Disbursements are for the salary and enforcement efforts of the Income Tax Commissioner and transfers to other funds, for the general operating expenses of the Village.

3. Debt Service Fund

This fund is used to accumulate resources for payment of various loans of the Village. The Village had the following debt service fund:

Sewer Debt Fund

This fund is used to retire debt issued from various sewer related loans of the Village.

4. Capital Project Fund

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise funds). The Village had the following capital project fund:

Fire Capital Fund

This fund is used to account for receipts from fire contracts with neighboring townships for the purchase of fire equipment.

5. Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Trash Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

6. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant Fiduciary Funds:

**VILLAGE OF SARDINIA
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cemetery Fund - A non-expendable trust fund used to account for the principal amounts of monies left to the Village to be used for the upkeep of the Village cemetery.

Mayor's Court Fund – An agency fund used to account for monies received, by the public, in the form of court costs, fines, bonds, and/or restitutions.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) 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 Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered 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 re-appropriated. The Village did not encumber all commitments required by Ohio law; however, at December 31, 2003 and 2002 there were no material unrecorded encumbrances.

A summary of 2003 and 2002 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.

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

**VILLAGE OF SARDINIA
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

2. EQUITY IN POOLED CASH AND DEPOSITS

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

	2003	2002
Demand deposits	\$190,585	\$252,551
Certificate of deposit	6,150	6,150
Total deposits	196,735	258,701

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
General	\$112,073	\$170,442	\$58,369
Special Revenue	286,200	248,941	(37,259)
Debt Service	181,337	0	(181,337)
Capital Projects	151,000	314,345	163,345
Enterprise	382,652	525,729	143,077
Total	\$1,113,262	\$1,259,457	\$146,195

2003 Budgeted vs. Actual Budgetary Basis Expenditures

	Budgeted Expenditures	Actual Expenditures	Variance
General	\$130,347	\$182,053	(\$51,706)
Special Revenue	362,698	286,768	75,930
Debt Service	23,802	13,461	10,341
Capital Projects	45,585	275,607	(230,022)
Enterprise	510,793	570,568	(59,775)
Total	\$1,073,225	\$1,328,457	(\$255,232)

**VILLAGE OF SARDINIA
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$195,025	\$168,311	(\$26,714)
Special Revenue	306,325	287,365	(18,960)
Debt Service	30,000	20,000	(10,000)
Capital Projects	31,000	20,500	(10,500)
Enterprise	402,145	451,326	49,181
Total	\$964,495	\$947,502	(\$16,993)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Budgeted Expenditures	Actual Expenditures	Variance
General	\$231,725	\$186,475	\$45,250
Special Revenue	366,409	261,760	104,649
Debt Service	38,000	14,512	23,488
Capital Projects	55,000	48,333	6,667
Enterprise	456,411	426,335	30,076
Total	\$1,147,545	\$937,415	\$210,130

In 2003, expenditures exceeded appropriations in the General Fund by \$51,706, Fire Capital Projects Fund by \$75,242, Issue II Fund by \$154,780 and the Sewer Fund by \$119,722.

In 2002, expenditures exceeded appropriations in the Sewer Fund by \$41,998 and the Trash Fund by \$18,306.

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.

**VILLAGE OF SARDINIA
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

5. LOCAL INCOME TAX

The Village levies a municipal income tax of ½ percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income from residents earned outside the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority 1977	\$169,835	6.25%
Ohio Water Development Authority 2003	171,338	n/a
Water Mortgage Revenue Bonds 1994	430,000	5.90%
Municipal Building Bond Anticipation Note	75,000	2.25%
Sewer Improvement Bond Anticipation Note	25,000	2.25%
Police Cruiser Bond Anticipation Note	19,000	5.38%
Fire Truck Bond Anticipation Note	125,000	2.25%
Total	\$1,015,173	

The 1977 Ohio Water Development Authority (OWDA) loan relates to a water and sewer lines and plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA approved a loan in 1977 of \$405,346 to the Village for this project. The loan will be repaid in annual installments of \$29,025 including interest, over 40 years. This loan is collateralized by water and sewer revenue. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The 2003 OWDA loan relates to the planning for a wastewater treatment plant design project. During 2003, the Village received \$171,338 from the OWDA that was then disbursed by the Village to engineers for the design project. The project is currently ongoing and additional draws are being made. A final loan amount or amortization schedule is currently not available.

In 1994, the Village issued mortgage revenue bonds in the principal amount of \$500,000 at a rate of 4.5 – 6.875%. The Series 1994 bonds were issued for the purpose of making improvements to the municipal water system. The bonds are payable over 30 years and are collateralized by water and sewer revenues.

In 2003, the Village issued four notes totaling \$244,000. The proceeds of the notes were used to purchase a police cruiser and fire truck, and make improvements to the village sewer system and municipal building. These are one year notes which the Village anticipates will be renewed for one year. These were general obligations of the Village.

**VILLAGE OF SARDINIA
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. DEBT (Continued)

Amortization of the above debt (excepting the 2003 OWDA loan for which an amortization schedule has not been set), including interest, is scheduled as follows:

Year Ending <u>December 31:</u>	OWDA <u>Loan 1977</u>	Mortgage <u>Revenue Bonds</u>	General <u>Obligation Notes</u>
2004	\$14,512	\$39,218	\$251,320
2005	29,025	38,598	0
2006	29,025	37,968	0
2007	29,025	37,333	0
2008	29,025	41,693	0
Subsequent	87,075	627,600	0
Total	<u>\$217,687</u>	<u>\$822,410</u>	<u>\$251,320</u>

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participants and 24% of fire participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2003.

8. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Commercial Inland Marine

The Village also provides health insurance and vision insurance to full-time employees through a private carrier.

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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 Sardinia
Brown County
151 Maple Ave.
Sardinia, Ohio 45171

To the Village Council:

We have audited the accompanying financial statements of the Village of Sardinia, Brown County, Ohio (the Village), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated September 27, 2004, wherein we noted the Village used the Auditor of State's UAN system to process accounting transactions. 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 2003-001 and 2003-002. We also noted immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated September 27, 2004.

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. The reportable conditions are described in the accompanying schedule of findings as items 2003-003 through 2003-006.

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 misstatement 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, we do not believe the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control structure over financial reporting that do not require inclusion in this report that we have reported to the management of the Village in a separate letter dated September 27, 2004.

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



Betty Montgomery
Auditor of State

September 27, 2004

**VILLAGE OF SARDINIA
BROWN COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Rev. Code, 5705.41(D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure 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 encumbrances. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two exceptions to the above requirements:

- A. Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from receipt of such certificate.
- B. If the amount involved is less than \$1,000 dollars (\$3,000 effective 4/7/2003), the Clerk may authorize payment through a Then and Now certificate without affirmation of the Council, if such expenditure is otherwise valid.

47% of the expenditures tested were not prior certified. Every effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying funds on purchase orders. Failure to properly certify funds could result in the overspending of funds.

FINDING NUMBER 2003-002

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 in the following funds:

2002 Fund	Appropriations	Expenditures	Variance
Sewer Fund	\$171,130	\$213,128	\$(41,998)
Trash Fund	43,300	61,606	(18,306)

FINDING NUMBER 2003-002
 (Continued)

2003 Fund	Appropriations	Expenditures	Variance
General Fund	\$130,347	\$182,053	\$(51,706)
Fire Capital Projects Fund	45,585	120,827	(75,242)
Issues II Fund	0	154,780	(154,780)
Sewer Fund	200,895	320,617	(119,722)

The Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2003-03

Reportable Condition – Police Citation Log

The Police Chief failed to maintain a citation log. The purpose of a citation log is to maintain an independent record of all citations issued. Not maintaining a log of tickets issued reduces the assurance that all citations or cases and their related fines and costs have been properly accounted for. To increase assurance that all cases have been documented, we recommend that the Police Chief account for every citation issued by the police department on a citation log.

FINDING NUMBER 2003-04

Reportable Condition – Bond and Payout Schedules

The Bond and Payout Schedules that the Mayor’s Court used to determine the fines and costs to charge for violations were not approved by village council. Additionally, two different Schedules were used during the same time period. Ohio Rev. Code 1907.10 states that Mayors retain jurisdiction in all criminal cases involving the violation of ordinances of their respective municipal corporations. Without the Schedules being approved by the Village Council, they are not official. To avoid any possible liability to the Village, we recommend that the Village Council immediately approve a Bond and Payout Schedule and document their approval in the minute records. Council should contact their solicitor to determine what, if any, action they should take to approve the Bond and Payout Schedule used previously by the Mayor’s Court. The Mayor’s Court should only collect fines and costs that have been approved by the Village Council.

FINDING NUMBER 2003-05

Reportable Condition – Posting Errors

Many errors were noted on the Village’s receipts ledger, appropriations ledger and Annual Financial Report. A number of audit reclassifications to the report were necessary to properly reflect the proper account classifications of the Village. This report is the presentation of the Village’s financial activities and it is important that the report be fairly and accurately stated. Also, using proper classifications to the accounting records will provide the Village with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State. We recommend that the Clerk post all receipt and disbursement amounts to the proper account classifications.

FINDING NUMBER 2003-005
(Continued)

The Clerk can refer to the UAN Accounting Manual, Appendix B for suggested Village account classifications.

FINDING NUMBER 2003-06

Reportable Condition – Income Tax Receipts

Village's income tax receipts decreased from \$69,819 in 2001, to \$59,721 in 2002, to \$54,433 in 2003. During the audit period there was extremely high turnover in the Income Tax Clerk's position.

The following issues were identified during our testing:

- The Village has not established and implemented enforcement procedures for late and non-filing residents. 21% of the Village Income Tax filers did not file either their 2002 or 2003 income tax returns.
- 62% of the returns tested were not audited by the Income Tax Clerk. The Village's procedures requires the Income Tax Clerk to review all returns.
- 12% of the returns tested did not have W-2 forms attached or any other supporting documentation with the return to support the calculation for the taxes owed.
- A Refunds Ledger and a Delinquent Account Ledger were not maintained.

Without establishing a stable environment for the Income Tax Department the controls over tax collections weakens. Without establishing and enforcing procedures for income tax collections, the Village could continue to lose income tax revenues. To strengthen the controls over the Income Tax Department, we recommend that the Village Council implement and enforce procedures for late and non-filing taxpayers. Returns should be reviewed for accuracy and initialed by the Income Tax Clerk. Proper ledgers should be maintained to track both refunds and delinquent accounts. If the Village can not establish an Income Tax Department with an adequate control environment, they may want to consider contracting with a third party administrator.

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**VILLAGE OF SARDINIA
BROWN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2001-30401-001	ORC5705.4(B) Expenditures exceeded appropriations	No	Not Corrected. Reissued as Finding 2003-002
2001-30401-002	ORC5705.39 Appropriations exceeded estimated resources	Yes	
2001-30401-003	ORC5705.41(D) Failure to prior certify expenditures	No	Not Corrected. Reissued as Finding 2003-001
2001-30401-004	Reportable Condition: Failure to maintain a citation log	No	Not Corrected. Reissued as Finding 2003-003



**Auditor of State
Betty Montgomery**

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VILLAGE OF SARDINIA

BROWN 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 4, 2004**