



**VILLAGE OF SUGAR GROVE
FAIRFIELD COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF SUGAR GROVE
FAIRFIELD COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Sugar Grove
Fairfield County
101 Bridge Street, P.O. Box 7
Sugar Grove, Ohio 43155

To the Village Council:

We have audited the accompanying financial statements of the Village of Sugar Grove, Fairfield County, Ohio (the Village) as of and for the years ended December 31, 2001 and December 31, 2000. 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 and reserve for encumbrances of the Village of Sugar Grove as of December 31, 2001 and December 31, 2000, 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 February 28, 2002 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 finance committee, 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.

JIM PETRO
Auditor of State

February 28, 2002

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**VILLAGE OF SUGAR GROVE
FAIRFIELD 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	\$94,529	\$2,863	\$0	\$97,392
Intergovernmental Receipts	28,138	22,938	36,800	87,876
Fines, Licenses, and Permits	721	200		921
Earnings on Investments	3,866	1,182		5,048
Miscellaneous	5,566			5,566
Total Cash Receipts	<u>132,820</u>	<u>27,183</u>	<u>36,800</u>	<u>196,803</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	27,256	2,640		29,896
Public Health Services	1,078			1,078
Leisure Time Activities	4,441	146		4,587
Community Environment	2,051			2,051
Transportation		36,145		36,145
General Government	69,042	339		69,381
Capital Outlay		4,595	38,228	42,823
Total Cash Disbursements	<u>103,868</u>	<u>43,865</u>	<u>38,228</u>	<u>185,961</u>
Total Receipts Over/(Under) Disbursements	<u>28,952</u>	<u>(16,682)</u>	<u>(1,428)</u>	<u>10,842</u>
Other Financing Receipts/(Disbursements):				
Transfers-In		263		263
Transfers-Out	(263)			(263)
Total Other Financing Receipts/(Disbursements)	<u>(263)</u>	<u>263</u>	<u>0</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>28,689</u>	<u>(16,419)</u>	<u>(1,428)</u>	<u>10,842</u>
Fund Cash Balances, January 1	<u>56,811</u>	<u>43,242</u>	<u>4,132</u>	<u>104,185</u>
Fund Cash Balances, December 31	<u>\$85,500</u>	<u>\$26,823</u>	<u>\$2,704</u>	<u>\$115,027</u>
Reserves for Encumbrances, December 31	<u>\$303</u>	<u>\$0</u>	<u>\$0</u>	<u>\$303</u>

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

**VILLAGE OF SUGAR GROVE
FAIRFIELD COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Proprietary Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$89,811	\$0	\$0	\$89,811
Total Operating Cash Receipts	89,811			89,811
Operating Cash Disbursements:				
Personal Services	11,051			11,051
Fringe Benefits	1,275			1,275
Contractual Services	46,979			46,979
Supplies and Materials	13,012			13,012
Total Operating Cash Disbursements	72,317	0	0	72,317
Operating Income/(Loss)	17,494	0	0	17,494
Non-Operating Cash Receipts:				
Mayor's Court Collections			1,090	1,090
Total Non-Operating Cash Receipts	0	0	1,090	1,090
Non-Operating Cash Disbursements:				
Distribution of Court Fines/Fees			1,075	
Debt Service	4,799			4,799
Total Non-Operating Cash Disbursements	4,799	0	1,075	4,799
Net Receipts Over/(Under) Disbursements	12,695	0	15	13,785
Fund Cash Balances, January 1	46,441	5,057	15	51,513
Fund Cash Balances, December 31	\$59,136	\$5,057	\$30	\$65,298
Reserve for Encumbrances, December 31	\$7,537	\$0	\$0	\$7,537

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

**VILLAGE OF SUGAR GROVE
FAIRFIELD 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:				
Property Tax and Other Local Taxes	\$95,368	\$2,598	\$0	\$97,966
Intergovernmental Receipts	38,393	19,696		58,089
Fines, Licenses, and Permits	2,490	690		3,180
Earnings on Investments	4,450	2,333		6,783
Miscellaneous	2,382	600		2,982
Total Cash Receipts	<u>143,083</u>	<u>25,917</u>	<u>0</u>	<u>169,000</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	31,118			31,118
Public Health Services	1,057			1,057
Leisure Time Activities		45		45
Community Environment	3,219			3,219
Basic Utility Services	30,000			30,000
Transportation		36,994		36,994
General Government	85,096	1,775		86,871
Capital Outlay			3,672	3,672
Total Cash Disbursements	<u>150,490</u>	<u>38,814</u>	<u>3,672</u>	<u>192,976</u>
Total Receipts Over/(Under) Disbursements	(7,407)	(12,897)	(3,672)	(23,976)
Fund Cash Balances January 1	<u>64,218</u>	<u>56,139</u>	<u>7,804</u>	<u>128,161</u>
Fund Cash Balances, December 31	<u>\$56,811</u>	<u>\$43,242</u>	<u>\$4,132</u>	<u>\$104,185</u>
Reserve for Encumbrances, December 31	<u>\$282</u>	<u>\$980</u>	<u>\$0</u>	<u>\$1,262</u>

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

**VILLAGE OF SUGAR GROVE
FAIRFIELD COUNTY**

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

	Proprietary Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$75,754	\$0	\$0	\$75,754
Earnings on Investment		57		\$57
Donations and Contributions		5,000	9	5,009
Total Operating Cash Receipts	<u>75,754</u>	<u>5,057</u>	<u>9</u>	<u>80,820</u>
Operating Cash Disbursements:				
Personal Services	11,305			11,305
Fringe Benefits	1,268			1,268
Contractual Services	54,194			54,194
Supplies and Materials	8,736			8,736
Capital Outlay	341			341
Total Operating Cash Disbursements	<u>75,844</u>	<u>0</u>	<u>0</u>	<u>75,844</u>
Operating Income/(Loss)	<u>(90)</u>	<u>5,057</u>	<u>9</u>	<u>4,976</u>
Non-Operating Cash Receipts:				
Mayor's Court Collections			4,255	4,255
Total Non-Operating Cash Receipts	<u>0</u>	<u>0</u>	<u>4,255</u>	<u>4,255</u>
Non-Operating Cash Disbursements:				
Distribution of Court Fines/Fees			4,524	
Debt Service	4,799			4,799
Total Non-Operating Cash Disbursements	<u>4,799</u>	<u>0</u>	<u>4,524</u>	<u>4,799</u>
Net Receipts Over/(Under) Disbursements	(4,889)	5,057	(260)	4,432
Fund Cash Balances, January 1	51,330	0	275	51,605
Fund Cash Balances, December 31	<u><u>\$46,441</u></u>	<u><u>\$5,057</u></u>	<u><u>\$15</u></u>	<u><u>\$56,037</u></u>
Reserve for Encumbrances, December 31	<u>\$1,066</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,066</u>

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

**VILLAGE OF SUGAR GROVE
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Sugar Grove, Fairfield 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 water and sewer utilities, park operations, and police services.

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 Investments

Investments are included in fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

U.S. Treasury Bonds are valued at cost.

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 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.

**VILLAGE OF SUGAR GROVE
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Fund (Continued)

Permissive Motor Vehicle License Fund - This fund receives permissive motor vehicle tax money for constructing, maintaining and repairing Village streets.

3. Capital Projects 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 projects funds:

Grant Construction Fund - This fund receives a Community Development Block Grant for the construction of a water treatment plant.

4. 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.

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

5. 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. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

Non-Expendable Trust Fund - This fund was created from the bequeath of a village resident. The interest is to be used for the cemetery.

Agency Fund - This fund receives money collected by the Mayor's Court as fines and forfeitures.

**VILLAGE OF SUGAR GROVE
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

A summary of 2001 and 2000 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. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

**VILLAGE OF SUGAR GROVE
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investment pool used by all funds except the non-expendable trust fund. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2001	2000
Demand deposits	\$174,250	\$150,698
Total deposits	174,250	150,698
Treasury Bond	5,000	5,000
Total investments	5,000	5,000
Total deposits and investments	\$179,250	\$155,698

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

Investments: The U.S. Treasury Bond is held in book-entry form by the Federal Reserve, in the name of the Village's financial institution. The financial institution maintains records identifying the Village as owner of this securities.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2001 and December 31, 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$115,056	\$132,820	\$17,764
Special Revenue	25,841	27,446	1,605
Capital Projects	36,800	36,800	0
Enterprise	81,500	89,811	8,311
Fiduciary	1,575	1,090	(485)
Total	\$260,772	\$287,967	\$27,195

**VILLAGE OF SUGAR GROVE
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$166,108	\$104,434	\$61,674
Special Revenue	62,870	43,865	19,005
Capital Projects	40,228	38,228	2,000
Enterprise	114,818	84,653	30,165
Fiduciary	57	1,075	(1,018)
Total	<u>\$384,081</u>	<u>\$272,255</u>	<u>\$111,826</u>

2000 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$122,779	\$143,083	\$20,304
Special Revenue	24,200	25,917	1,717
Enterprise	72,290	75,754	3,464
Fiduciary	5,057	9,321	4,264
Total	<u>\$224,326</u>	<u>\$254,075</u>	<u>\$29,749</u>

2000 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$183,506	\$150,772	\$32,734
Special Revenue	77,074	39,794	37,280
Capital Projects	7,804	3,672	4,132
Enterprise	120,539	81,709	38,830
Fiduciary	0	4,524	(4,524)
Total	<u>\$388,923</u>	<u>\$280,471</u>	<u>\$108,452</u>

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.

**VILLAGE OF SUGAR GROVE
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

4. PROPERTY TAX (Continued)

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. LOCAL INCOME TAX

The Village levies a municipal income tax of .75% percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to Oatney & Wasem, CPAs, the Village's tax administrator, 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, 2001 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$10,106	10.16%

The Ohio Water Development Authority (OWDA) loan was used to install a 70,000 gallon per day extended aeration sewage treatment system and service building. The loan will be repaid in semiannual installments on \$2,399, including interest, over the next 20 years. The loan is collateralized by water and sewer receipts.

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

Year ending December 31:	OWDA Loan
2002	\$2,399
2003	4,798
2004	4,798
Total	\$11,995

**VILLAGE OF SUGAR GROVE
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Public Employees Retirement System (PERS) of Ohio. Elected and appointed officials belong to the Social Security Administration. Social Security 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 Congress and the Ohio Revised Code.

Contribution rates are also prescribed by Congress and the Ohio Revised Code. For 2001 and 2000, Social Security members contributed 7.65% of their wages to the Social Security Administration. The Village contributed an amount equal to 7.65% of their wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of PERS participants' gross salaries through June 30, 2000. Commencing July 1, 2000, PERS temporarily reduced employer contributions to 8.13%. The Village has paid all contributions required through December 31, 2001.

8. RISK MANAGEMENT

Risk Pool Membership

The Government belongs to the Public Entities Pool of Ohio ("PEP"), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Insurance

PEP retains casualty risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Insurance

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

VILLAGE OF SUGAR GROVE
FAIRFIELD COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)

8. RISK MANAGEMENT (Continued)

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, for the most recent information available:

<u>Casualty Coverage</u>	<u>2000</u>	<u>1999</u>
Assets	\$17,112,129	\$15,295,389
Liabilities	<u>7,715,035</u>	<u>6,636,543</u>
Retained earnings	<u>\$9,397,094</u>	<u>\$8,658,846</u>
<u>Property Coverage</u>	<u>2000</u>	<u>1999</u>
Assets	\$1,575,614	\$1,118,222
Liabilities	<u>281,561</u>	<u>279,871</u>
Retained earnings	<u>\$1,294,053</u>	<u>\$838,351</u>

The above information is the most recent available from PEP.

9. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

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

Village of Sugar Grove
Fairfield County
101 Bridge Street, P.O. Box 7
Sugar Grove, Ohio 43155

To the Village Council:

We have audited the accompanying financial statements of the Village of Sugar Grove, Fairfield County, Ohio (the Village) as of and for the years ended December 31, 2001 and December 31, 2000, and have issued our report thereon dated February 28, 2002. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the Village in a separate letter dated February 28, 2002.

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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 judgement, 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 condition is described in the accompanying schedule of findings as item 2001-30623-001.

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, the reportable condition described above is considered to be a material weakness.

Village of Sugar Grove
Fairfield County
Report of Independent Accountants on Compliance and on
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This report is intended solely for the information and use of the finance committee, management and 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

February 28, 2002

**VILLAGE OF SUGAR GROVE
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2001-10623-001

Material Weakness

The Village has delegated income tax return processing, which is a significant accounting function, to a third party administrator, Oatney & Wasem, CPA's. The Village has not established procedures to determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that income tax returns have not been completely and accurately processed in accordance with the income tax contract.

We recommend the Village implement procedures to assure the completeness and accuracy of income tax revenue processed by Oatney & Wasem, CPA's. Statement on Auditing Standards (SAS) No. 70 as amended, prescribes standards for reporting on the processing (i.e., control design and operation) of transactions by service organizations. An unqualified Tier II "Report on Policies and Procedures Placed in Operation and Test of Operating Effectiveness" in accordance with SAS No. 70, should provide the Village with an appropriate level of assurance that income tax returns are being processed in conformance with the contract.

We recommend the Village specify in their contract with Oatney & Wasem, CPA's that an annual Tier II SAS 70 report be performed. The Village should be provided a copy of the SAS 70 report timely and should review the report's content. A SAS 70 audit report should be conducted in accordance with American Institute of Certified Public Accountants (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of Ohio.



STATE OF OHIO
OFFICE OF THE AUDITOR

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VILLAGE OF SUGAR GROVE

FAIRFIELD 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
MARCH 28, 2002**