



**Auditor of State  
Betty Montgomery**



VILLAGE OF PALESTINE  
DARKE COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Village of Palestine  
Darke County  
P.O. Box B  
Palestine, OH 45352

To the Village Mayor and Council:

We have audited the accompanying financial statements of the Village of Palestine, Darke 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 June 13, 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.

Village of Palestine  
Darke County  
Independent Accountants' Report  
Page 2

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

June 13, 2003

**VILLAGE OF PALESTINE  
DARKE 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> |                            | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|--|--------------------------------|----------------------------|---|
|  | <u>General</u>                 | <u>Special<br/>Revenue</u> |   |
| <b>Cash Receipts:</b>                        |                                |                            |   |
| Local Taxes                                  | \$3,054                        |                            | \$3,054                                 |
| Intergovernmental Receipts                   | 33,148                         | \$9,354                    | 42,502                                  |
| Interest                                     | 443                            | 48                         | 491                                     |
| Miscellaneous                                |                                | 1,179                      | 1,179                                   |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Cash Receipts                          | 36,645                         | 10,581                     | 47,226                                  |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| <b>Cash Disbursements:</b>                   |                                |                            |   |
| Current:                                     |                                |                            |   |
| Security of Persons and Property             | 7,589                          |                            | 7,589                                   |
| Public Health Services                       | 484                            |                            | 484                                     |
| Leisure Time Activities                      | 2,766                          | 1,888                      | 4,654                                   |
| Transportation                               | 10,266                         | 6,193                      | 16,459                                  |
| General Government                           | 14,160                         |                            | 14,160                                  |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Cash Disbursements                     | 35,265                         | 8,081                      | 43,346                                  |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Receipts Over/(Under) Disbursements    | 1,380                          | 2,500                      | 3,880                                   |
| Fund Cash Balances, January 1, 2002          | 31,896                         | 10,729                     | 42,625                                  |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| <b>Fund Cash Balances, December 31, 2002</b> | <b><u>\$33,276</u></b>         | <b><u>\$13,229</u></b>     | <b><u>\$46,505</u></b>                  |

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

**VILLAGE OF PALESTINE  
DARKE 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<br/>(Memorandum<br/>Only)</u> |
|--|--------------------------------|----------------------------|---|
|  | <u>General</u>                 | <u>Special<br/>Revenue</u> |   |
| <b>Cash Receipts:</b>                        |                                |                            |   |
| Local Taxes                                  | \$3,067                        |                            | \$3,067                                 |
| Intergovernmental Receipts                   | 34,782                         | \$9,697                    | 44,479                                  |
| Interest                                     | 1,029                          | 133                        | 1,162                                   |
| Miscellaneous                                | 441                            | 2,595                      | 3,036                                   |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Cash Receipts                          | 39,319                         | 12,425                     | 51,744                                  |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| <b>Cash Disbursements:</b>                   |                                |                            |   |
| Current:                                     |                                |                            |   |
| Security of Persons and Property             | 7,415                          |                            | 7,415                                   |
| Public Health Services                       | 467                            |                            | 467                                     |
| Leisure Time Activities                      | 5,512                          | 2,375                      | 7,887                                   |
| Transportation                               | 26,197                         | 9,793                      | 35,990                                  |
| General Government                           | 17,788                         |                            | 17,788                                  |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Cash Disbursements                     | 57,379                         | 12,168                     | 69,547                                  |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Receipts Over/(Under) Disbursements    | (18,060)                       | 257                        | (17,803)                                |
| Fund Cash Balances, January 1, 2001          | 49,956                         | 10,472                     | 60,428                                  |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| <b>Fund Cash Balances, December 31, 2001</b> | <b><u>\$31,896</u></b>         | <b><u>\$10,729</u></b>     | <b><u>\$42,625</u></b>                  |

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



**VILLAGE OF PALESTINE  
DARKE 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 Palestine, Darke County (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 and park operations (leisure time activities). The Village contracts with the Darke County Sheriff's Department to provide for security of persons and property.

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**

The Village maintains interest bearing checking and savings accounts.

**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 type:

**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.

**VILLAGE OF PALESTINE  
DARKE COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Special Revenue Funds**

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

**Street Construction, Maintenance and Repair Fund** – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village Streets.

**State Highway Improvement Fund** – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing state highways within the Village limits.

**Park Fund** – This fund receives grants and donations to fund maintenance of the Village Park.

**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 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. 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.

**3. Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made.

The Village failed to use the encumbrance method of accounting and certify that funds were available prior to incurring obligations, in violation of Ohio Rev. Code 5705.41 (D).

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

**F. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**VILLAGE OF PALESTINE  
DARKE COUNTY**

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

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

|                                | 2002     | 2001     |
|--------------------------------|----------|----------|
| Demand deposits                | \$46,505 | \$42,625 |
| Total deposits and investments | \$46,505 | \$42,625 |

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

**3. BUDGETARY ACTIVITY**

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

**2002 Budgeted vs. Actual Receipts**

| Fund Type       | Budgeted<br>Receipts | Actual<br>Receipts | Variance  |
|-----------------|----------------------|--------------------|-----------|
| General         | \$38,800             | \$36,645           | (\$2,155) |
| Special Revenue | \$9,450              | \$10,581           | \$1,131   |
| Total           | \$48,250             | \$47,226           | (\$1,024) |

**2002 Budgeted vs. Actual Budgetary Basis Expenditures**

| Fund Type       | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance |
|-----------------|----------------------------|---------------------------|----------|
| General         | \$70,685                   | \$35,265                  | \$35,420 |
| Special Revenue | \$17,480                   | \$8,081                   | \$9,399  |
| Total           | \$88,165                   | \$43,346                  | \$44,819 |

**2001 Budgeted vs. Actual Receipts**

| Fund Type       | Budgeted<br>Receipts | Actual<br>Receipts | Variance |
|-----------------|----------------------|--------------------|----------|
| General         | \$37,000             | \$39,319           | \$2,319  |
| Special Revenue | \$10,370             | \$12,425           | \$2,055  |
| Total           | \$47,370             | \$51,744           | \$4,374  |

**2001 Budgeted vs. Actual Budgetary Basis Expenditures**

| Fund Type       | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance |
|-----------------|----------------------------|---------------------------|----------|
| General         | \$85,030                   | \$57,379                  | \$27,651 |
| Special Revenue | \$20,550                   | \$12,168                  | \$8,382  |
| Total           | \$105,580                  | \$69,547                  | \$36,033 |

**VILLAGE OF PALESTINE  
DARKE COUNTY**

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

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village of 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**

**A. Public Employees Retirement System**

The Village Clerk/Treasurer, four Council members, and one employee belong to Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides 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 2002 and 2001, PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2001. The Village has paid all contributions required through December 31, 2002.

**B. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the Public Employee Retirement System have an option to choose Social Security or the Public Retirement Service System. As of December 31, 2002, two of the Council members and the Mayor have elected Social Security. The Village's liability is 6.2 percent of the wages paid.

**6. RISK MANAGEMENT**

The Village has obtained commercial insurance for the following risks:

- Commercial Property and General Liability
- Comprehensive Vehicle Liability
- Inland Marine



**Auditor of State  
Betty Montgomery**

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

Village of Palestine  
Darke County  
P.O. Box B  
Palestine, OH 45352

To the Village Mayor and Council:

We have audited the accompanying financial statements of the Village of Palestine, Darke County, (the Village), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated June 13, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of finding as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated June 13, 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted 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 June 13, 2003.

Village of Palestine  
Darke County  
Independent Accountants' Report on Compliance and on Internal Control  
Required by *Government Auditing Standards*  
Page 2

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.

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

**Betty Montgomery**  
Auditor of State

June 13, 2003

VILLAGE OF PALESTINE  
DARKE COUNTY

SCHEDULE OF FINDING  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2002-001

**Noncompliance Citation:**

**Ohio Rev. Code Section 5705.41 (D)**, provides that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money without attaching thereto the certificate of the fiscal officer of the subdivision that the amount required to meet the same in the fiscal year in which the contract is made 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. Contracts and orders for expenditures lacking prior certification should be null and void.

This section also provides an exception to this requirement:

If no certificate is issued at the time the contract or order is entered into, the fiscal officer may later certify that these funds were properly appropriated and in the treasury or in the process of collection and such funds are free from previous encumbrance both at the time the contract or order was entered into and at the time of payment. After certifying this, the fiscal officer may proceed to pay for such order or contract. If the amount involved is over \$1,000, the taxing authority must approve of such payment within 30 days of the date of the fiscal officer's certification.

The Village Clerk did not certify funds were available for any Village disbursements during 2002 and 2001, nor was the exception above utilized and the required certification issued at the time of payment.

The Village should develop policies and procedures to certify that funds are available prior to the obligation and disbursement of funds.







**Auditor of State  
Betty Montgomery**

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P.O. Box 1140  
Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

**VILLAGE OF PALESTINE**

**DARKE 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  
JULY 22, 2003**