

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
REPORT ON FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**





**Auditor of State  
Betty Montgomery**

Village Council  
Village of Mechanicsburg  
18 North Main Street  
Mechanicsburg, Ohio 43044

We have reviewed the *Independent Auditor's Report* of the Village of Mechanicsburg, Champaign County, prepared by Holbrook & Manter, CPAs, for the audit period January 1, 2002 to December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Mechanicsburg is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY  
Auditor of State

November 16, 2005

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**INDEPENDENT AUDITORS' REPORT**

Village Council  
Village of Mechanicsburg  
Champaign County

We were engaged to audit the accompanying financial statements of the Village of Mechanicsburg, Champaign County, Ohio, (the Village) as of and for the years ended December 31, 2003 and December 31, 2002. These financial statements are the responsibility of the Village's management.

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 accounting principles generally accepted in the United States of America.

Because of inadequacies in the Village's accounting records, we were unable to form an opinion regarding the amounts recorded as revenues, expenditures, and fund balances in the accompanying Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types and Similar Fiduciary Fund and the Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary Fund Types and Similar Fiduciary Fund for the years ended December 31, 2003 and 2002.

In addition, the Auditor of State of Ohio performed a special audit and issued their report dated July 16, 2004. The results of the special audit are significant and material and these reported items presented substantial limitations to our engagement.

Because of the significance of the matters discussed in the preceding two paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

*Holbrook & Manter*

Certified Public Accountants

July 11, 2005

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

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

	GOVERNMENT FUND TYPES			FIDUCIARY FUND	Memorandum Only
	General	Special Revenue	Capital Project	Expendable Trust	Total
<b>Cash receipts:</b>					
Local taxes	\$ 37,058	\$ 21,272	\$ 0	\$ 275,177	\$ 333,507
Intergovernmental	76,712	75,209	0	0	151,921
Charges for services	3,148	44,530	0	0	47,678
Fines, licenses, and permits	52,307	3,794	0	0	56,101
Miscellaneous and interest	13,976	856	518	523	15,873
Total cash receipts	183,201	145,661	518	275,700	605,080
<b>Cash disbursements:</b>					
Current:					
Security of persons and property	220,114	40,805	0	0	260,919
Public health services	4,657	0	0	0	4,657
Transportation	0	87,823	0	0	87,823
General government	142,313	506	0	0	142,819
Capital outlay	0	20,736	18,529	0	39,265
Debt service	15,843	23,093	0	0	38,936
Total cash disbursements	382,927	172,963	18,529	0	574,419
Total receipts over (under) cash disbursements	( 199,726)	( 27,302)	( 18,011)	275,700	30,661
Other financing receipts (disbursements):					
Transfers - in	275,700	54,194	26,250	0	356,144
Transfers - out	( 60,000)	( 20,444)	0	( 275,700)	( 356,144)
Other uses	( 4,930)	0	0	0	( 4,930)
Total other financing receipts (disbursements)	210,770	33,750	26,250	( 275,700)	( 4,930)
Excess of cash receipts and other financing receipts over (under) cash disbursements and other financing disbursements	11,044	6,448	8,239	0	25,731
Fund cash balances, January 1, 2003	14,103	59,131	21,768	0	95,002
Fund cash balances, December 31, 2003	\$ 25,147	\$ 65,579	\$ 30,007	\$ 0	\$ 120,733
<b>Reserve for encumbrances, December 31, 2003</b>	\$ 0	\$ 2,277	\$ 0	\$ 0	\$ 2,277

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

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN  
FUND CASH BALANCES - PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND-  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>PROPRIETARY FUND</u>	<u>FIDUCIARY FUND</u>	<u>Memorandum Only</u>
	<u>Enterprise</u>	<u>Agency</u>	<u>Total</u>
<b>Operating cash receipts:</b>			
Charges for services	\$ 559,444	\$ 0	\$ 559,444
Total operating cash receipts	559,444	0	559,444
<b>Operating cash disbursements:</b>			
Personal services	283,039	0	283,039
Contractual services	42,810	0	42,810
Supplies and materials	144,289	0	144,289
Capital outlay	10,577	0	10,577
Total operating cash disbursements	480,715	0	480,715
Operating income	78,729	0	78,729
<b>Non-operating cash receipts:</b>			
Intergovernmental revenue	4,693	0	4,693
Miscellaneous	14,146	782	14,928
Total non-operating cash receipts	18,839	782	19,621
<b>Non-operating cash disbursements:</b>			
Debt service	119,805	0	119,805
Other non-operating cash disbursements	9,840	0	9,840
Total non-operating cash disbursements	129,645	0	129,645
Excess (deficit) of receipts over disbursements before interfund transfers and advances	( 32,077)	782	( 31,295)
Transfer - in	18,534	0	18,534
Transfer - out	( 18,534)	0	( 18,534)
Net receipts over disbursements, (disbursements over receipts)	( 32,077)	782	( 31,295)
Fund cash balances, January 1, 2003	181,971	226	182,197
<b>Fund cash balances, December 31, 2003</b>	<u>\$ 149,894</u>	<u>\$ 1,008</u>	<u>\$ 150,902</u>

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



**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

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

	GOVERNMENT FUND TYPES			FIDUCIARY	Memorandum
	General	Special Revenue	Capital Project	FUND Expendable Trust	Only Total
<b>Cash receipts:</b>					
Local taxes	\$ 35,154	\$ 19,592	\$ 0	\$ 287,765	\$ 342,511
Intergovernmental	80,264	59,207	0	0	139,471
Charges for services	2,992	43,337	0	0	46,329
Fines, licenses, and permits	38,503	1,177	0	0	39,680
Miscellaneous and interest	35,869	909	184	0	36,962
Total cash receipts	192,782	124,222	184	287,765	604,953
<b>Cash disbursements:</b>					
Current:					
Security of persons and property	247,196	30,580	0	0	277,776
Public health services	4,416	0	0	0	4,416
Transportation	0	106,735	0	0	106,735
General government	141,668	441	0	0	142,109
Capital outlay	0	20,241	23,433	0	43,674
Debt service	0	23,093	0	0	23,093
Total cash disbursements	393,280	181,090	23,433	0	597,803
Total receipts over (under) cash disbursements	( 200,498)	( 56,868)	( 23,249)	287,765	7,150
Other financing receipts (disbursements):					
Transfers - in	287,765	64,151	26,250	0	378,166
Transfers - out	( 71,250)	( 19,151)	0	( 287,765)	( 378,166)
Other sources	0	0	0	0	0
Other uses	( 5,930)	0	0	0	( 5,930)
Total other financing receipts (disbursements)	210,585	45,000	26,250	( 287,765)	( 5,930)
Excess of cash receipts and other financing receipts over (under) cash disbursements and other financing disbursements	10,087	( 11,868)	3,001	0	1,220
Fund cash balances, January 1, 2002	4,016	70,999	18,767	0	93,782
Fund cash balances, December 31, 2002	\$ 14,103	\$ 59,131	\$ 21,768	\$ 0	\$ 95,002
<b>Reserve for encumbrances, December 31, 2002</b>	\$ 0	\$ 7,816	\$ 0	\$ 0	\$ 7,816

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

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**  
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN  
FUND CASH BALANCES - PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND-  
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>	<u>Memorandum Only</u>
	<u>Enterprise</u>	<u>Agency</u>	<u>Total</u>
<b>Operating cash receipts:</b>			
Charges for services	\$ 581,056	\$ 0	\$ 581,056
Total operating cash receipts	581,056	0	581,056
<b>Operating cash disbursements:</b>			
Personal services	243,068	0	243,068
Contractual services	39,714	0	39,714
Supplies and materials	152,994	0	152,994
Capital outlay	9,321	0	9,321
Total operating cash disbursements	445,097	0	445,097
Operating income	135,959	0	135,959
<b>Non-operating cash receipts:</b>			
Miscellaneous	22,715	575	23,290
Total non-operating cash receipts	22,715	575	23,290
<b>Non-operating cash disbursements:</b>			
Debt service	130,096	0	130,096
Other non-operating cash disbursements	3,880	575	4,455
Total non-operating cash disbursements	133,976	575	134,551
Excess of receipts over disbursements before interfund transfers and advances	24,698	0	24,698
Transfer - in	46,875	0	46,875
Transfer - out	( 37,972)	0	( 37,972)
Net receipts over disbursements	33,601	0	33,601
Fund cash balances, January 1, 2002	148,370	226	148,596
<b>Fund cash balances, December 31, 2002</b>	<u>\$ 181,971</u>	<u>\$ 226</u>	<u>\$ 182,197</u>

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

**VILLAGE OF MECHANICSBURG**  
**CHAMPAIGN COUNTY**  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-**

- A. **Description of the Entity** - The Village of Mechanicsburg, Champaign County, Ohio, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities, and police and fire protection.

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 of Ohio, 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 of Ohio.

- C. **Cash and Investments** - Investments are included in fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sale of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. Certificates of Deposit 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:

General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be restricted.

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.

*Fire Fund*

This fund receives contract money from the adjoining Townships for the purpose of providing fire protection.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-** (continued)

Capital Project Funds

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

*Capital Projects Fund*

This fund receives revenues such as Issue II Grant proceeds for the purpose of Village capital projects such as street construction.

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 non expendable 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:

*Income Tax Fund*

This fund receives tax collections from village residents who work or reside in the Village, or people who work in the Village based on one percent of their gross wages.

Enterprise 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 Enterprise funds:

*Water, Sewer, and Surcharge Funds*

These funds are used to account for proceeds from water and sewer operations. The revenue is to be used to maintain plant operations and for water and sewer improvements.

*Ambulance Fund*

This fund is used to account for proceeds from emergency medical services. The revenue is to be used to maintain the operations and equipment.

- E. *Budgetary Process*** - The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

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.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-** (continued)

Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

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. *Accumulated 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.

**NOTE 2 - EQUITY IN POOLED CASH:-**

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

	<b>2003</b>	<b>2002</b>
Deposits	\$ 268,182	\$ 273,628
Certificate of deposit	3,453	3,571
Total deposits	\$ 271,635	\$ 277,199
Fund cash balances;-		
Governmental Fund Types	\$ 120,733	\$ 95,002
Enterprises Fund	149,894	181,971
Agency Fund	1,008	226
Total fund cash balances	\$ 271,635	\$ 277,199

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

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002

**NOTE 3 - BUDGETARY ACTIVITY:-**

Budgetary activity for the year ending December 31, 2003 was as follows:

**2003 Budgeted vs. Actual Receipts**

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 474,815	\$ 458,901	\$ ( 15,914)
Special Revenue	199,340	199,855	515
Capital Project	35,100	26,768	( 8,332)
Enterprise and Agency	643,092	597,599	( 45,493)
Trust	<u>300,000</u>	<u>275,700</u>	<u>( 24,300)</u>
Total	<u>\$ 1,652,347</u>	<u>\$ 1,558,823</u>	<u>\$ ( 93,524)</u>

**2003 Budgeted vs. Actual Budgetary Basis Expenditures**

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 471,631	\$ 447,857	\$ 23,774
Special Revenue	272,459	193,407	79,052
Capital Projects	56,794	18,529	38,265
Enterprise and Agency	808,343	628,894	179,449
Trust	<u>300,000</u>	<u>275,700</u>	<u>24,300</u>
Total	<u>\$ 1,909,227</u>	<u>\$ 1,564,387</u>	<u>\$ 344,840</u>

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002

**NOTE 3 - BUDGETARY ACTIVITY:-** (continued)

Budgetary activity for the year ending December 31, 2002 was as follows:

**2002 Budgeted vs. Actual Receipts**

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 460,140	\$ 480,547	\$ 20,407
Special Revenue	196,757	188,373	( 8,384)
Capital Project	35,025	26,434	( 8,591)
Enterprise and Agency	628,333	650,646	22,313
Trust	<u>300,000</u>	<u>287,765</u>	<u>( 12,235)</u>
Total	<u>\$ 1,620,255</u>	<u>\$ 1,633,765</u>	<u>\$ 13,510</u>

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

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 483,006	\$ 470,460	\$ 12,546
Special Revenue	260,281	200,241	60,040
Capital Projects	53,918	23,433	30,485
Enterprise and Agency	776,064	617,620	158,444
Trust	<u>300,000</u>	<u>287,765</u>	<u>12,235</u>
Total	<u>\$ 1,873,269</u>	<u>\$ 1,599,519</u>	<u>\$ 273,750</u>

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**NOTE 5 - PROPERTY TAX:-**

Real property taxes become a lien on January 1, preceding the October 1 date for which rates are adopted by the 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.

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.

**NOTE 6 - LOCAL INCOME TAX:-**

The Village levies a municipal income tax of 1.0% on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of 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.

See Note 11 regarding the subsequent event that have taken place since December 31, 2003.

Subsequent to December 31, 2003, the Village contracted with the Regional Income Tax Agency (RITA) and authorized them to administer the municipal income tax collections on behalf of the Village.

**NOTE 7 - DEBT:-**

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA Pure Water Loan	\$ 6,430	2.00%
OWDA Sewer Retirement Loan	46,284	6.25%
OWDA Sewer Retirement Loan (1991)	543,053	2.00%
Citizens National Bank Water and Sewer Improvements	34,727	6.13%
Champaign Bank Fire Department Rescue/Pumper Loan	88,814	6.50%
USDA Rural Development Bonds for Ambulance	<u>12,000</u>	4.50%
Total	<u>\$ 731,308</u>	



**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**NOTE 7 - DEBT**:- (continued)

During 1991, the Village entered into a loan agreement with the Ohio Water Development Authority for assistance in expanding and improving the Village's water system. The total loan amount was for \$1,500,000 with an interest rate of 2.00%, and payments are required over 20 years through July 1, 2010. As of December 31, 2003, the Village has an outstanding balance on the loan of \$6,430.

During 1972, the Ohio Sewer Retirement Loan through the Ohio Water Development Authority was entered into for the purpose of expanding and improving the sewer system. The total loan was for \$244,405 with an interest rate of 6.25%, and payments of principal and interest are required over 40 years through July 1, 2011. As of December 31, 2003, the Village has an outstanding balance on the loan of \$46,284.

During 1991, the Village entered into a second loan agreement with the Ohio Water Development Authority for assistance in expanding and improving the Village's sewer system. The total loan amount was for \$1,500,000 with an interest rate of 2.00%, and payments of principal and interest are required over 20 years through July 1, 2010. As of December 31, 2003, the Village has an outstanding balance on the loan of \$543,053.

The Citizens National Bank Loan was entered into during 2000 and was used for water and sewer improvements with payments of principal and interest installments due monthly to the bank. The total loan amount was \$50,000 with an interest rate of 6.25%. As of December 31, 2003, the Village has an outstanding balance on the loan of \$34,727.

During 1998, the Village entered into a loan agreement with Champaign Bank for the purchase of a Fire Department Rescue/Pumper. The total loan amount was for \$161,762 with an interest rate of 6.50% and installments due semiannually through February, 2008. As of December 31, 2003, the Village has an outstanding balance on the loan of \$88,814.

During 1999, the Village entered into an agreement with the United States Department of Agriculture, Rural Development, also known as USDA. The USDA Rural Development issued bonds for \$22,000, with a fixed interest rate of 4.5%, which was used by the Village for the purchase of an ambulance with the bonds maturing annually with principal and interest due. As of December 31, 2003, the Village has an outstanding balance of \$12,000.

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

<u>Year Ending December 31,</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2004	\$ 122,855	\$ 35,284	\$ 158,139
2005	118,866	29,803	148,669
2006	121,178	24,136	145,314
2007	119,863	18,194	138,057
2008	99,852	12,047	111,899
2009-2014	<u>148,694</u>	<u>9,615</u>	<u>158,309</u>
Total	<u>\$ 731,308</u>	<u>\$ 129,079</u>	<u>\$ 860,387</u>

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**NOTE 8 - LEASE OBLIGATIONS:-**

The Village entered into a lease agreement during 2002 with the US Bancorp for a new copier. The term consisted of 48 monthly payments of \$198 through August 24, 2006. The copier can be purchased by the Village at fair market value at the end of the lease agreement.

The Village entered into a lease agreement during 2003 with GE Capital for a new projector. The term consisted of 50 monthly payments of \$35 through July 12, 2008. The projector can be purchased by the Village at the end of the lease for a \$1 buyout.

The following schedule summarizes the future minimum lease payments of the above lease obligations:

<u>Description</u>	<u>Term</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
US Bancorp - Copier	08/24/01 - \$ 08/24/06	\$ 2,371	\$ 2,371	\$ 1,580	\$ 0	\$ 0
GE Capital - Projector	07/12/03 - 07/12/08	420	420	420	420	210
Total		<u>\$ 2,791</u>	<u>\$ 2,791</u>	<u>\$ 2,000</u>	<u>\$ 420</u>	<u>\$ 210</u>

Subsequent to December 31, 2003, the Village entered into two additional lease agreements. The first lease was entered into with Dell Financial on January 30, 2004 for new computers in the police department. The second lease was entered into with Ford Motor Credit on November 1, 2004 for a new police cruiser.

**NOTE 9 - RETIREMENT SYSTEMS:-**

The Village's law enforcement officers belong to the Police & Firemen's Disability & Pension Funds (PFDPF). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PFDPF and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including post retirement 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, members of PFDPF contributed 10.1% of their wages to the PFDPF. The Village contributed an amount equal to 19.5% of their 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.

**NOTE 10 - RISK MANAGEMENT:-**

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**NOTE 10 - RISK MANAGEMENT:-** (continued)

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

The Plan uses conventional insurance coverage and reinsures this coverage. Effective September 1, 2002, the Plan retains 5% of the premium and losses on the first \$500,000 casualty treaty (up to \$25,000 of a loss) and 5% of the first \$1,000,000 property treaty (up to \$50,000 of a loss). The Plan also participates in a loss corridor in its first \$500,000 casualty reinsurance. The corridor includes losses paid between 55% and 65% of premiums earned under this treaty. (Reinsurance coverage would resume after a paid loss ratio of 65% is exceeded.) The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and members' equity at December 31:

	<u>2003</u>	<u>2002</u>
Assets	\$ 5,402,167	\$ 5,584,592
Liabilities	( 1,871,123)	( 2,441,793)
Members' Equity	<u>\$ 3,531,044</u>	<u>\$ 3,142,799</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

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

**NOTE 11 - CONTINGENT LIABILITIES:-**

Subsequent to December 31, 2003, the Environmental Protection Agency contacted the Village regarding "Proposed Director's Final Findings and Orders" regarding citations for various violations/findings related to the waste water treatment plant within the Village. The violations were for infractions such as having an expired permit, discharge that had affected aquatic life and insufficient sampling and analysis. A portion of these findings dated back to 1998, but the Village had not properly responded to the notices received for these violations. The proposed fine associated with the violations and lack of responses totaled \$264,985. Based on the inability to pay, the fine amount was reduced to \$7,276, with the agreement that the violations/findings would be addressed immediately or the Village would face additional legal action.



**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Village Council  
Village of Mechanicsburg  
Champaign County

We were engaged to audit the financial statements of the Village of Mechanicsburg, Champaign County, Ohio (the Village), as of and for the years ended December 31, 2003 and December 31, 2002, and have issued our report thereon dated July 11, 2005. We did not express an opinion on the financial statements because of the inadequacy and condition of the financial records of the Village and because of the reported results of a special audit performed by the Auditor of State of Ohio.

**Internal Control Over Financial Reporting**

In attempting to plan and perform our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 controls over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

In addition, our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses, which are reported as findings within this report. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the Village in a separate letter dated July 11, 2005.

**Compliance**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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. We also noted certain instances of noncompliance that we have reported to the management of the Village in a separate letter dated July 11, 2005.

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

A handwritten signature in dark ink that reads 'Holbrook &amp; Manter' in a cursive script.

Certified Public Accountants

July 11, 2005

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**SCHEDULE OF FINDINGS**  
**VILLAGE OF MECHANICSBURG**  
**CHAMPAIGN COUNTY**  
**JANUARY 1, 2002 TO DECEMBER 31, 2003**

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

<b>Finding Number</b>	
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**Non-Compliance**

**N-1 Ohio Revised Code Section 5705.41 (D)** states that no purchase orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the purchase order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

This section also provides an exception to this requirement:

If no certificate is issued at the time the contract or order is presented for payment, the taxing authority may authorize the payment provided there are appropriated sufficient sums for the purpose of such contracts and is in the treasury or process of collection to the credit of an appropriate fund free from a previous encumbrance provided such action is taken within thirty days of the contract date, and the amount is less than \$3,000 (\$1,000 prior to April 7, 2003). This is referred to as a “then and now certificate”.

Numerous expenditures tested for 2002 and 2003 were initiated without obtaining the prior certification of the Clerk. None of these expenditures met the exception provided for in section 5705.41 (d) (i.e., then and now certificate).

These budgetary controls were not working properly. These budgetary controls are essential to ensure proper spending and to avoid unnecessary expenditures. Procedures should be adopted by the Village that would assure that commitments are properly encumbered prior to the expenditure of Village funds.

**N-2 Ohio Rev. Code Section 5705.41 (C)** states that no subdivision is to expend money except by a proper warrant drawn against an appropriate fund.

During expenditure testing, we noted instances of expenditures that were not charged to the proper fund.

The proper recording of expenditures is essential to ensure that funds are not over drawn and to ensure that the budget process is working properly and is a useful tool for management. Procedures should be adopted to ensure that the Village records expenditures to the proper accounts.

**N-3 Ohio Rev. Code Section 5705.14, 5705.15, 5705.16** provide guidelines pertaining to allowable inter-fund transfers. Generally, before an inter-fund transfer can be made from the General Fund, a resolution of the taxing authority shall be passed by a majority of the Village Council.

We noted that none of the transfers throughout the year were appropriately approved by resolution of the Village Council. In addition, the transfers-in didn't tie to the transfers-out. These amounts should be equal at all times. The Village Clerk should obtain approval from Village Council proper to transferring money from any fund and the Village Council should be apprised of all information involving transfers and the Council should take action immediately when the policies and procedures of the transfer system are not appropriately followed.

**SCHEDULE OF FINDINGS**  
**VILLAGE OF MECHANICSBURG**  
**CHAMPAIGN COUNTY**  
**JANUARY 1, 2002 TO DECEMBER 31, 2003**

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

Finding Number	
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**Non-Compliance**

**N-4 Ohio Rev. Code Section 149.351(A)** requires that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by the Ohio Rev. Code Sections 149.38 through 149.42.

Village employees were unable to locate various documents requested throughout the audit testing and analysis. The Village should ensure all records are adequately safeguarded. In addition, Village Council should establish a records removal policy. This will assist with ensuring that Village records are not lost or destroyed.

**Reportable Conditions**

**R-1** During our examination and testing of expenditures, we noted that Village employees did not retain an invoice or other adequate support for several of the expenditures tested in 2002 and 2003. Adequate documentation is a key element of an internal control system; this condition limits the control and accountability over Village expenditures and allows for the possibility of improper payment to occur. We advise that invoices for all expenditures be retained to support the proper public purpose of the payment.

**R-2** During our audit, we noted that the Village Council did not review and approve all invoices presented for payment. The lack of this control element limits the control and accountability over Village expenditures and allows for the possibility of improper payment to occur. We recommend that all invoices be approved and initialed by the appropriate employee before approval of payment by the Council. Council approval is absolutely necessary, in order to limit the increased risk due to the lack of sufficient segregation of duties.

**R-3** Based on our review of the Ohio Auditor of State's special report dated July 16, 2004, we reiterate their management comments and recommend that the Village takes prompt action to address them. Please refer to their report and specifically their comments regarding income tax receipts, voided receipts, Summer Celebration account, records retention schedule, and Mayor's court computerization fees fund.



**Auditor of State  
Betty Montgomery**

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**VILLAGE OF MECHANICSBURG**

**CHAMPAIGN 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 29, 2005**