



Mary Taylor, CPA
Auditor of State

**MECHANIC TOWNSHIP
HOLMES COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Mechanic Township
Holmes County
1817 State Route 83, Route 440
Millersburg, Ohio 44654

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mechanic Township, Holmes County, Ohio, (the Township) as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mechanic Township, Holmes County, Ohio, as of December 31, 2006, and the respective changes in cash financial position and the respective budgetary comparison for the General, Gasoline Tax, Road and Bridge and the Road District Funds thereof for the year ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2007, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Mary Taylor, CPA
Auditor of State

August 6, 2007

Mechanic Township
Holmes County

Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

This discussion and analysis of the Mechanic Township's financial performance provides an overall review of the Township's financial activities for the year ended December 31, 2006, within the limitations of the Township's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Township's financial performance.

Highlights

Key highlights for 2006 are as follows:

Net assets of governmental activities increased \$80,475, or 26 percent, which was a significant change from the prior year.

The Township's general receipts are primarily property taxes. These receipts represent 37 percent of the total cash received for governmental activities during the year.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Township's cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Township as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Township as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Township has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Township's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Mechanic Township
Holmes County

Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Reporting the Township as a Whole

The statement of net assets and the statement of activities reflect how the Township did financially during 2006, within the limitations of cash basis accounting. The statement of net assets presents the cash balances of the governmental activities of the Township at year end. The statement of activities compares cash disbursements with program receipts for each governmental program activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Township's general receipts.

These statements report the Township's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Township's financial health. Over time, increases or decreases in the Township's cash position is one indicator of whether the Township's financial health is improving or deteriorating. When evaluating the Township's financial condition, you should also consider other nonfinancial factors as well such as the Township's property tax base, the condition of the Township's capital assets and infrastructure, the extent of the Township's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, all of the Township's services are reported as governmental activities. The Township does not have any business type activities.

Governmental activities. All of the Township's services are reported here, including police, fire, and streets. State and federal grants and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Township's Most Significant Funds

Fund financial statements provide detailed information about the Township's major funds – not the Township as a whole. The Township establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Township are all in one category: governmental.

Governmental Funds - All of the Township's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Township's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Township's programs. The Township's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Township's major governmental funds are the General Fund, Gasoline Tax Fund, Road and Bridge Fund and the Road District Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Mechanic Township
Holmes County

Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The Township as a Whole

Table 1 provides a summary of the Township's net assets for 2006 compared to 2005 on a cash basis:

(Table 1)

Net Assets

	Governmental Activities	
	2006	2005
Assets		
Cash and Cash Equivalents	<u>\$394,734</u>	<u>\$314,259</u>
Net Assets		
Restricted for:		
Permanent Fund	\$2,491	\$2,431
Other Purposes	173,361	141,215
Unrestricted	<u>218,882</u>	<u>170,613</u>
Total Net Assets	<u>\$394,734</u>	<u>\$314,259</u>

As mentioned previously, net assets of governmental activities increased \$80,475 or 26 percent during 2006.

Table 2 reflects the changes in net assets on a cash basis in 2006 and 2005 for governmental activities.

Mechanic Township
Holmes County

Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

(Table 2)
Changes in Net Assets

	Governmental Activities	
	2006	2005
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$16,050	\$16,772
Operating Grants and Contributions	104,313	88,945
Total Program Receipts	<u>120,363</u>	<u>105,717</u>
General Receipts:		
Property and Other Local Taxes	134,710	131,229
Grants and Entitlements Not Restricted to Specific Programs	99,274	38,198
Interest	1,166	1,048
Miscellaneous	7,006	3,790
Total General Receipts	<u>242,156</u>	<u>174,265</u>
Total Receipts	<u>362,519</u>	<u>279,982</u>
Disbursements:		
General Government	57,400	63,583
Public Works	224,644	214,561
Health		2,479
Total Disbursements	<u>282,044</u>	<u>280,623</u>
Increase (Decrease) in Net Assets	80,475	(641)
Net Assets, January 1	<u>314,259</u>	<u>314,900</u>
Net Assets, December 31	<u>\$394,734</u>	<u>\$314,259</u>

Program receipts represent 33 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money.

Mechanic Township
Holmes County

Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

General receipts represent 67 percent of the Township's total receipts, and of this amount, over 56 percent are local taxes. State and federal grants and entitlements make up the balance of the Township's general receipts (41 percent). Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Township and the support services provided for the other Township activities. These include the costs of the Board, and internal services such as payroll and purchasing. Since these costs do not represent direct services to residents, we try to limit these costs.

Governmental Activities

If you look at the Statement of Activities on page 10, you will see that the first column lists the major services provided by the Township. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for public works and general government, which account for 80 and 20 percent of all governmental disbursements, respectively. The next two columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Township that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
General Government	\$57,400	(\$56,732)	\$63,583	(\$63,583)
Public Works	224,644	(104,949)	214,561	(108,844)
Health			2,479	(2,479)
Total Expenses	\$282,044	(\$161,681)	\$280,623	(\$174,906)

The dependence upon property tax receipts is apparent as over 48 percent of governmental activities are supported through these general receipts.

Mechanic Township
Holmes County

Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The Township's Funds

Total governmental funds had receipts of \$375,023 and disbursements of \$294,548. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$48,268 as the result of increased intergovernmental receipts.

General Fund Budgeting Highlights

The Township's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2006, the Township amended its General Fund budget to reflect changing circumstances. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$151,000 while actual disbursements were \$88,956. The Township tried to keep spending down. The result is an increase in fund balance of \$48,268 for 2006.

Current Issues

The challenge for all Governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes.

Contacting the Township's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to reflect the Township's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Dan Muse, Township Fiscal Officer, Mechanic Township, 1817 State Route 83, Route 440, Millersburg, Ohio 44654.

**MECHANIC TOWNSHIP
HOLMES COUNTY**

*Statement of Net Assets - Cash Basis
December 31, 2006*

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$394,734</u></u>
Net Assets	
Restricted for:	
Permanent Fund	\$2,491
Other Purposes	173,361
Unrestricted	<u>218,882</u>
<i>Total Net Assets</i>	<u><u>\$394,734</u></u>

See accompanying notes to the basic financial statements

**MECHANIC TOWNSHIP
HOLMES COUNTY**

*Statement of Activities - Cash Basis
For the Year Ended December 31, 2006*

	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions
			Governmental Activities
Governmental Activities			
General Government	\$57,400		\$668
Public Works	224,644	\$16,050	103,645
<i>Total Governmental Activities</i>	<u>\$282,044</u>	<u>\$16,050</u>	<u>\$104,313</u>
General Receipts			
Property Taxes			134,710
Grants and Entitlements not Restricted to Specific Programs			99,274
Earnings on Investments			1,166
Miscellaneous			7,006
<i>Total General Receipts</i>			242,156
Change in Net Assets			80,475
<i>Net Assets Beginning of Year</i>			314,259
<i>Net Assets End of Year</i>			<u>\$394,734</u>

See accompanying notes to the basic financial statements

**MECHANIC TOWNSHIP
HOLMES COUNTY**

*Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2006*

	GENERAL	GASOLINE TAX	ROAD AND BRIDGE	ROAD DISTRICT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets						
Equity in Pooled Cash and Cash Equivalents	\$218,882	\$84,811	\$60,861	\$4,303	\$25,880	\$394,737
Fund Balances						
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	\$218,882					\$218,882
Special Revenue Funds		\$84,811	\$60,861	\$4,303	\$23,386	173,361
Permanent Fund					2,491	2,491
<i>Total Fund Balances</i>	<u>\$218,882</u>	<u>\$84,811</u>	<u>\$60,861</u>	<u>\$4,303</u>	<u>\$25,877</u>	<u>\$394,734</u>

See accompanying notes to the basic financial statements

**MECHANIC TOWNSHIP
HOLMES COUNTY**

*Statement of Cash Receipts, Disbursements and
Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2006*

	GENERAL	GASOLINE TAX	ROAD AND BRIDGE	ROAD DISTRICT	OTHER GOVERNMENTAL FUNDS	TOTAL
Receipts						
Property and Other Local Taxes	\$45,676		\$50,243	\$38,792		\$134,711
Charges for Services			16,050			16,050
Intergovernmental	87,392	\$88,931	6,580	4,634	\$16,049	203,586
Earnings on Investments	825	217			124	1,166
Miscellaneous	3,330		3,676			7,006
Total Receipts	137,223	89,148	76,549	43,426	16,173	362,519
Disbursements						
Current:						
General Government	57,400					57,400
Public Works	31,556	65,712	59,945	45,870	21,561	224,644
Total Disbursements	88,956	65,712	59,945	45,870	21,561	282,044
Excess of Receipts Over (Under) Disbursements	48,267	23,436	16,604	(2,444)	(5,388)	80,475
Net Change in Fund Balances	48,267	23,436	16,604	(2,444)	(5,388)	80,475
Fund Balances Beginning of Year	170,614	61,376	44,257	6,747	31,265	314,259
Fund Balances End of Year	<u>\$218,881</u>	<u>\$84,812</u>	<u>\$60,861</u>	<u>\$4,303</u>	<u>\$25,877</u>	<u>\$394,734</u>

See accompanying notes to the basic financial statements

**MECHANIC TOWNSHIP
HOLMES COUNTY**

*Statement of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$43,470	\$43,470	\$45,676	\$2,206
Intergovernmental	24,849	24,849	87,392	62,543
Earnings on Investments	750	750	826	76
Miscellaneous			3,330	3,330
<i>Total Receipts</i>	<u>69,069</u>	<u>69,069</u>	<u>137,224</u>	<u>68,155</u>
Disbursements				
Current:				
General Government	95,600	95,600	57,400	38,200
Public Works	48,000	48,000	31,556	16,444
Health	7,400	7,400		7,400
<i>Total Disbursements</i>	<u>151,000</u>	<u>151,000</u>	<u>88,956</u>	<u>62,044</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(81,931)</u>	<u>(81,931)</u>	<u>48,268</u>	<u>130,199</u>
<i>Fund Balance Beginning of Year</i>	<u>170,614</u>	<u>170,614</u>	<u>170,614</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$88,683</u>	<u>\$88,683</u>	<u>\$218,882</u>	<u>\$130,199</u>

See accompanying notes to the basic financial statements

**MECHANIC TOWNSHIP
HOLMES COUNTY**

*Statement of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual -Budget Basis
Gasoline Tax Fund
For the Year Ended December 31, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	\$61,000	\$61,000	\$88,931	\$27,931
Earnings on Investments	160	160	217	57
<i>Total Receipts</i>	<u>61,160</u>	<u>61,160</u>	<u>89,148</u>	<u>27,988</u>
Disbursements				
Current:				
Public Works	81,000	81,000	65,712	15,288
Net Change in Fund Balances	(19,840)	(19,840)	23,436	43,276
<i>Fund Balance Beginning of Year</i>	<u>61,376</u>	<u>61,376</u>	<u>61,376</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$41,536</u></u>	<u><u>\$41,536</u></u>	<u><u>\$84,812</u></u>	<u><u>\$43,276</u></u>

See accompanying notes to the basic financial statements

**MECHANIC TOWNSHIP
HOLMES COUNTY**

*Statement of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual -Budget Basis
Road and Bridge Fund
For the Year Ended December 31, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$47,790	\$47,790	\$50,243	\$2,453
Charges for Services	12,000	12,000	16,050	4,050
Intergovernmental	5,310	5,310	6,580	1,270
Miscellaneous			3,676	3,676
<i>Total Receipts</i>	<u>65,100</u>	<u>65,100</u>	<u>76,549</u>	<u>11,449</u>
Disbursements				
Current:				
Public Works	83,900	83,900	59,945	23,955
<i>Excess of Receipts Over (Under) Disbursements</i>	(18,800)	(18,800)	16,604	35,404
Other Financing Sources				
Transfers In			4,168	4,168
Net Change in Fund Balances	(18,800)	(18,800)	20,772	39,572
<i>Fund Balance Beginning of Year</i>	<u>44,257</u>	<u>44,257</u>	<u>44,257</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$25,457</u>	<u>\$25,457</u>	<u>\$65,029</u>	<u>\$39,572</u>

See accompanying notes to the basic financial statements

**MECHANIC TOWNSHIP
HOLMES COUNTY**

*Statement of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual -Budget Basis
Road District Fund
For the Year Ended December 31, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$36,810	\$36,810	\$38,792	\$1,982
Intergovernmental	4,090	4,090	4,634	544
<i>Total Receipts</i>	<u>40,900</u>	<u>40,900</u>	<u>43,426</u>	<u>2,526</u>
Disbursements				
Current:				
Public Works	46,300	46,300	45,870	430
<i>Excess of Receipts Over (Under) Disbursements</i>	(5,400)	(5,400)	(2,444)	2,956
<i>Fund Balance Beginning of Year</i>	<u>6,747</u>	<u>6,747</u>	<u>6,747</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$1,347</u>	<u>\$1,347</u>	<u>\$4,303</u>	<u>\$2,956</u>

See accompanying notes to the basic financial statements

Mechanic Township
Holmes County

Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 1 – Reporting Entity

Mechanic Township, Holmes County, Ohio (the Township), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly elected three-member Board of Trustees. The Township also has an elected Township Fiscal Officer.

The reporting entity is comprised of the primary government, component units and other organizations that were included to ensure that the financial statements are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Township. The Township provides general government services, maintenance of Township roads and bridges, and cemetery maintenance. The Township contracts with the Holmes County Sheriff's Department to provide police protection. The Township contracts with the Holmes Fire District #1 to provide fire and ambulance services. The Holmes Fire District #1 is more fully described in Note 11 as a jointly governed organization.

B. Component Units

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs or services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Township is obligated for the debt of the organization. The Township is also financially accountable for any organizations that are fiscally dependent on the Township in that the Township approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Township, are accessible to the Township and are significant in amount to the Township.

Mechanic Township has no component units.

C. Joint Ventures, Jointly Governed Organizations and Public Entity Risk Pools

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Under the cash basis of accounting, the Township does not report assets for equity interests in joint ventures.

Mechanic Township
Holmes County

Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 1 – Reporting Entity (continued)

The Township participates in a jointly governed organization and a public entity risk pool. Notes 6 and 10 to the financial statements provide additional information for these entities. These organizations are:

Jointly Governed Organizations:
Holmes Fire District #1

Public Entity Risk Pool:
Ohio Township Association Risk Management Authority (OTARMA)

The Township's management believes these financial statements present all activities for which the Township is financially accountable.

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2 C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Township's accounting policies.

A. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. All activities of the Township are governmental activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Township does not report any business-type activities.

The statement of net assets presents the cash balances of the governmental activities of the Township at year end. The statement of activities compares disbursements with program receipts for each of the Township's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Township is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program and receipts of interest earned on grants that is required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Township's general receipts.

Mechanic Township
Holmes County

Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 2 – Summary of Significant Accounting Policies (Continued)

Fund Financial Statements

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

B. Fund Accounting

The Township uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. All of the Township's funds are categorized as governmental.

Governmental Funds

The Township classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Township's major governmental funds are the General Fund, Gasoline Tax Fund, Road and Bridge Fund and the Road District Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio. The Gasoline Tax Fund, Road and Bridge Fund and the Road District Fund are all used to account for tax money for constructing, maintaining and repairing Township roads.

The other governmental funds of the Township account for grants and other resources whose use is restricted to a particular purpose.

C. Basis of Accounting

The Township's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Township's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Township are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued liabilities and the related expenses) are not recorded in these financial statements.

Mechanic Township
Holmes County

Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 2 – Summary of Significant Accounting Policies (continued)

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Township may appropriate.

The appropriations ordinance is the Township's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the Township. The legal level of control has been established at the fund, department, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Township Fiscal Officer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Township.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Township during the year.

E. Cash and Investments

To improve cash management, cash received by the Township is pooled and invested. Individual fund integrity is maintained through Township records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Interest earnings are allocated to Township funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2006 was \$826.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

G. Inventory and Prepaid Items

The Township reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

Mechanic Township
Holmes County

Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 2 – Summary of Significant Accounting Policies (continued)

H. Capital Assets

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

I. Interfund Receivables/Payables

The Township reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

The Township recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

The Township's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid.

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for constructing, maintaining, and repairing Township roads. The Township's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Fund Balance Reserves

The Township reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

O. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

Mechanic Township
Holmes County

Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 3 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund and any major special revenue fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the cash basis are outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis).

There were no encumbrances outstanding at year end (budgetary basis) in the general fund or any major special revenue fund.

Note 4 – Deposits and Investments

Monies held by the Township are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Township treasury. Active monies must be maintained either as cash in the Township treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Trustees have identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Township can be deposited or invested in the following securities:

1. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
2. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
3. The State Treasurer's investment pool (STAR Ohio).

Mechanic Township
Holmes County

Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 4 - Deposits and Investments (continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Township, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Township will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$315,807 of the Township's bank balance of \$415,807 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities specifically pledged by the financial institution to the Township.

The Township has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Township or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of December 31, 2006, the Township had no investments.

Note 5 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Township. Real property tax receipts received in 2006 represent the collection of 2005 taxes. Real property taxes received in 2006 were levied after October 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2006 represent the collection of 2005 taxes. Public utility real and tangible personal property taxes received in 2006 became a lien on December 31, 2005, were levied after October 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. Tangible personal property was assessed at 18.75 percent of true value for capital assets and 18.75 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

Mechanic Township
Holmes County

Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 5 – Property Taxes (continued)

The full tax rate for all Township operations for the year ended December 31, 2006, was \$3.10 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property and Public Utility	\$47,539,700
Tangible Personal Property	2,134,350
Total Assessed Value	<u>\$49,674,050</u>

Note 6 – Risk Management

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member townships pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles. Coverage provided by OTARMA is as follows:

Legal Liability	\$2,000,000	Per Occurrence
Automobile Liability	2,000,000	Per Occurrence
Wrongful Acts	2,000,000	Per Occurrence
Property	298,900	Total Coverage

There were no significant reductions in coverage from prior years and claims have not exceeded insurance coverage in any of the past three years. The Township pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is based on accident history and administrative costs.

Casualty Coverage

For an occurrence prior to January 1, 2006 OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Townships can elect additional coverage, from \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Mechanic Township
Holmes County

Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 6 – Risk Management (continued)

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

OTARMA'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, 2006 and 2005:

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$32,031,312	\$30,485,638
Liabilities	<u>(11,443,952)</u>	<u>(12,344,576)</u>
Retained earnings	<u>\$20,587,360</u>	<u>\$18,141,062</u>
<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$10,010,963	\$9,177,796
Liabilities	<u>(676,709)</u>	<u>(1,406,031)</u>
Retained earnings	<u>\$9,334,254</u>	<u>\$7,771,765</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member townships in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$13,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

Mechanic Township
Holmes County

Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 6 – Risk Management (continued)

Based on discussions with OTARMA the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

Township Contributions to OTARMA

2005	\$4,943
2006	\$6,261

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA. They must provide written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

The Township participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. The Township's contribution rate for pension benefits for 2006 was 13.7 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

Mechanic Township
Holmes County

Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 8 - Defined Benefit Pension Plans (continued)

The Township's required contributions for the years ended December 31, 2006, 2005, and 2004 were \$9,654, \$9,770 and \$9,033, respectively; the full amount has been contributed for 2006, 2005 and 2004.

Note 9 - Postemployment Benefits

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll; 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between .50 percent and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$3,171. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Mechanic Township
Holmes County

Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 10 – Jointly Governed Organization

Holmes Fire District #1, Holmes County, (the District) 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 District is directed by appointed representatives from four political subdivisions consisting of the Village of Millersburg, Hardy Township, Mechanic Township and Monroe Township. The Board of Trustees consists of five members, one member from each subdivision and one member at large whose appointment is made by one individual subdivision within the District on a yearly rotational basis. The principal purpose of the District is to pool mutual resources and abilities of the member subdivisions and thereby provide the subdivisions adequate and responsible fire protection and emergency medical services.

Note 11 – Noncompliance

Contrary to Ohio Rev. Code Section 5705.40, certain appropriation amendments at the object level were not properly approved by the Board of Trustees.

Contrary to Ohio Rev. Code Section 5705.41(B) certain object level expenditures exceeded appropriations.



Mary Taylor, CPA

Auditor of State

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

Mechanic Township
Holmes County
1817 State Route 83, Route 440
Millersburg, Ohio 44654

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mechanic Township, Holmes County, Ohio, (the Township) as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements and have issued our report thereon dated August 6, 2007, wherein, we noted the Township uses a comprehensive accounting basis other than generally accepted accounting principles. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings 2006-001 through 2006-003 are also material weaknesses.

We also noted a certain internal control matter that we reported to the Township's management in a separate letter dated August 6, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance and other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2006-002 and 2006-003.

We also noted certain noncompliance or other matters that we reported to the Township's management in a separate letter dated August 6, 2007.

We intend this report solely for the information and use of management and the Board of Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

August 6, 2007

**MECHANIC TOWNSHIP
HOLMES COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

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

FINDING NUMBER 2006-001

Material Weakness

Monitoring Budgetary Amounts

During 2006 and 2005, the Township's Estimated Receipts included in the financial reports did not reconcile to the estimated receipts as approved by the County Budget Commission on the Amended Official Certificate of Estimated Resources, with variances up approximately \$4,200 and \$3,800, respectively. Consequently, the Board of Trustees and the Township Fiscal Officer were unable to accurately monitor the Township's budget status; thus preventing the Township from properly evaluating, on an on-going basis, the status of anticipated Township financial resources.

Sound financial reporting is the responsibility of the Fiscal Officer and Board of Trustees and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The Township's Comparison of Budgeted and Actual Receipts report should reflect estimated receipts approved by the County Budget Commission. The Township Fiscal Officer should periodically reconcile the Comparison of Budgeted and Actual Receipts report to ensure budgeted amounts are posted accurately and timely. This will help ensure the Board of Trustees and the Township Fiscal Officer have the information to effectively monitor and assess, on an on-going basis, results of estimated versus actual receipt activity.

Officials' Response: We did not receive a response from the officials to this finding.

FINDING NUMBER 2006-002

Noncompliance Citation and Material Weakness

Ohio Rev. Code Section 5705.40 provides that any appropriation measure may be amended or supplemented provided such amendment or supplement complies with all provisions of law governing the tax authority in making the original appropriation. Transfers may be made by resolution or ordinance from one appropriation item to another. *Burkholder v. Lauber* (1965), 6 Ohio Misc. 152, indicates that local government's governing board is prohibited from delegating those discretionary duties statutorily assigned to it. Following such reasoning a governing board is prohibited from delegating the ability to amend appropriations as provided for in Ohio Rev. Code Section 5705.40.

During 2006 and 2005, the Board adopted annual appropriations at the object level; however, they also made a motion at the beginning of each year to adopt the legal level of budgetary control at the fund level. Based on this motion to adopt the legal level of control at the fund level, the Fiscal Officer made several appropriation amendments at the object level without the approval of the Board of Trustees. In addition, these amendments were not filed with the County Auditor. The Board of Trustees should adopt their appropriations at the object level in accordance with Ohio Rev. Code Section 5705.38(C). Accordingly, the Board of Trustees should approve all amendments to appropriations at the same level. In addition, appropriation amendments should be timely filed with the County Auditor to ensure compliance with Ohio Rev. Code Section 5705.39.

Officials' Response: We did not receive a response from the officials to this finding.

FINDING NUMBER 2006-003

Noncompliance Citation and Material Weakness

Ohio Rev. Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated as provided in Chapter 5705. At December 31, 2006 and 2005, object level expenditures exceeded appropriations by amounts ranging from approximately \$140 to \$16,000. These variances were the result of the Township's appropriations in the financial reports not reconciling to the appropriations as approved by the Board of Trustees and County Budget Commission.

In the future, the Township Fiscal Officer should periodically reconcile the Comparison of Disbursements and Encumbrances report to ensure appropriation amounts are posted accurately and timely. In addition, the Township Fiscal Officer and Board of Trustees should frequently compare actual expenditures plus outstanding encumbrances to appropriations at the object level to avoid overspending.

Officials' Response: We did not receive a response from the officials to this finding.

**MECHANIC TOWNSHIP
HOLMES COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	<p>Ohio Rev. Code Sections 505.60, 124.841, and 3923.41(A) – The Township procured insurance policies on behalf of a full-time employee which were not permissible pursuant to the Ohio Rev. Code.</p>	Yes	Finding No Longer Valid



Mary Taylor, CPA
Auditor of State

MECHANIC TOWNSHIP

HOLMES 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
SEPTEMBER 18, 2007**