



**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2000-1999**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



MECHANIC TOWNSHIP  
HOLMES COUNTY

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STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

111 Second Street, NW  
Fourth Floor  
Canton, Ohio 44702  
Telephone 330-438-0617  
800-443-9272  
Facsimile 330-471-0001  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

## REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Trustees:

We have audited the accompanying financial statements of Mechanic Township, Holmes County, Ohio, (the Township) as of and for the years ended December 31, 2000 and 1999. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Township 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Township as of December 31, 2000 and 1999, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2001 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results for our audits.

This report is intended solely for the information and use of management, the Board of Trustees, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

**Jim Petro**  
Auditor of State

August 7, 2001

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**MECHANIC TOWNSHIP  
HOLMES COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Taxes	\$31,614	\$56,052	\$87,666
Intergovernmental	52,575	69,659	122,234
Interest	2,487	1,252	3,739
Other	0	8,983	8,983
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	86,676	135,946	222,622
	<hr/>	<hr/>	<hr/>
<b>Cash Disbursements:</b>			
Current:			
General Government	47,437	0	47,437
Public Works	5,929	124,477	130,406
Health	1,001	0	1,001
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	54,367	124,477	178,844
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over Cash Disbursements	32,309	11,469	43,778
	<hr/>	<hr/>	<hr/>
<b>Other Financing Receipts:</b>			
Other Sources	613	0	613
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements	32,922	11,469	44,391
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	62,921	94,404	157,325
	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balances, December 31</b>	<b>\$95,843</b>	<b>\$105,873</b>	<b>\$201,716</b>
	<hr/>	<hr/>	<hr/>
Reserves for Encumbrances, December 31	\$0	\$0	\$0
	<hr/>	<hr/>	<hr/>

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

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Taxes	\$31,467	\$55,265	\$86,732
Charges for Services	0	6,680	6,680
Intergovernmental	43,656	72,181	115,837
Interest	1,321	1,319	2,640
Other	5,118	499	5,617
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	81,562	135,944	217,506
<b>Cash Disbursements:</b>			
Current:			
General Government	46,098	0	46,098
Public Works	9,645	116,232	125,877
Health	12,929	0	12,929
Capital Outlay	1,801	1,570	3,371
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	70,473	117,802	188,275
Total Cash Receipts Over Cash Disbursements	<hr/>	<hr/>	<hr/>
	11,089	18,142	29,231
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	51,832	76,262	128,094
<b>Fund Cash Balances, December 31</b>	<hr/> <b>\$62,921</b> <hr/>	<hr/> <b>\$94,404</b> <hr/>	<hr/> <b>\$157,325</b> <hr/>
Reserves for Encumbrances, December 31	<hr/> <hr/> \$0	<hr/> <hr/> \$9,364	<hr/> <hr/> \$9,364

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



MECHANIC TOWNSHIP  
HOLMES COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCE  
NON-EXPENDABLE TRUST FUND  
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	<u>2000</u>	<u>1999</u>
<b>Operating Cash Receipts:</b>		
Interest	\$115	\$110
Fund Cash Balances, January 1	<u>2,142</u>	<u>2,032</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$2,257</u></b>	<b><u>\$2,142</u></b>
Reserves for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>

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

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**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2000 AND 1999**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

Mechanic Township, Holmes County, (the Township) 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 Township is directed by a publicly-elected three-member Board of Trustees. The Township provides general governmental services, including road and ditch maintenance, and a cemetery.

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

**B. Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**C. Cash**

The Township maintains all of its cash in an interest-bearing checking account, except for one Certificate of Deposit.

**D. Fund Accounting**

The Township uses fund accounting to segregate cash that is restricted as to use. The Township classifies its funds into the following types:

**1. General Fund**

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Funds**

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

Gasoline Tax Fund - This fund receives gasoline tax receipts for constructing, maintaining, and repairing Township roads.

Motor Vehicle License Tax Fund - This fund receives motor vehicle tax receipts for constructing, maintaining, and repairing Township roads.

Road and Bridge Fund - This fund receives gasoline tax receipts for constructing, maintaining, and repairing Township roads.

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2000 AND 1999  
(Continued)**

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

Road District Fund - This fund receives property tax receipts for constructing, maintaining and repairing Township roads.

**3. Fiduciary Fund (Trust Fund)**

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Township to maintain the corpus of the trust, the fund is classified as a non-expendable trust fund. The Township had the following non-expendable trust fund:

The Sowash Bequest Fund - This fund receives interest receipts from a cemetery endowment trust fund for cemetery maintenance.

**E. Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, which is the Township's legal level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not encumber all commitments required by Ohio law.

A summary of 2000 and 1999 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

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

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2000 AND 1999  
(Continued)**

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

**G. Unpaid Vacation and Sick Leave**

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

**2. EQUITY IN POOLED CASH**

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

	<u><b>2000</b></u>	<u><b>1999</b></u>
Demand deposits	\$201,973	\$157,391
Certificate of Deposit	<u>2,000</u>	<u>2,000</u>
Total cash	<u><u>\$203,973</u></u>	<u><u>\$159,391</u></u>

**Deposits:** Deposits up to \$100,000 are insured by the Federal Depository Insurance Corporation.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ended December 31, 2000 and 1999 follows:

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$67,620	\$87,289	\$19,669
Special Revenue	150,400	135,946	(14,454)
Non-expendable Trust	<u>110</u>	<u>115</u>	<u>5</u>
Total	<u><u>\$218,130</u></u>	<u><u>\$223,350</u></u>	<u><u>\$5,220</u></u>

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$109,125	\$54,367	\$54,758
Special Revenue	228,000	124,477	103,523
Non-expendable Trust	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u><u>\$337,125</u></u>	<u><u>\$178,844</u></u>	<u><u>\$158,281</u></u>

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2000 AND 1999  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

1999 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$65,055	\$81,562	\$16,507
Special Revenue	131,800	135,944	4,144
Non-expendable Trust	0	110	110
Total	<u>\$196,855</u>	<u>\$217,616</u>	<u>\$20,761</u>

1999 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$90,725	\$70,473	\$20,252
Special Revenue	167,500	127,166	40,334
Non-expendable Trust	0	0	0
Total	<u>\$258,225</u>	<u>\$197,639</u>	<u>\$60,586</u>

**4. NONCOMPLIANCE**

Contrary to Ohio Revised Code Section 5705.41 (D), certain 2000 and 1999 expenditures were not certified until after the obligation date.

Contrary to Ohio Rev. Code Section 135.18, the Township had certain funds on deposit not secured by the Township's financial banking institution as of December 31, 2000.

**5. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions.

Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts.

Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Township.

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 Township.

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2000 AND 1999  
(Continued)**

**6. RETIREMENT SYSTEM**

The Township's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. PERS members contributed 8.5% of their gross salaries. During 2000, the Township contributed an amount equal to 10.84% of participants' gross salaries. During 1999, the Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 2000.

**7. RISK MANAGEMENT**

The Township has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Errors and omissions

The Township also provides health insurance through Central Reserve Life Insurance Company for the Township's full-time employee.

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OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

111 Second Street, NW  
Fourth Floor  
Canton, Ohio 44702  
Telephone 330-438-0617  
800-443-9272  
Facsimile 330-471-0001  
www.auditor.state.oh.us

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

Mechanic Township  
Holmes County  
1718 State Route 83 Unit 440  
Millersburg, Ohio 44654

To the Board of Trustees:

We have audited the accompanying financial statements of Mechanic Township, Holmes County, Ohio, (the Township), as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated August 7, 2001. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as item 2000-40938-001 and 2000-40938-002.

In addition, we noted immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated August 7, 2001.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated August 7, 2001.

Mechanic Township  
Holmes County  
Report of Independent Accountants on Compliance and on Internal Control  
Required by *Government Auditing Standards*  
Page 2

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

**Jim Petro**  
Auditor of State

August 7, 2001

MECHANIC TOWNSHIP  
HOLMES COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2000 AND 1999

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

FINDING NUMBER 2000-40938-001

Noncompliance Citation

**Ohio Rev. Code Section 5705.41 (D)** requires that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such certificate shall be null and void, and no warrant shall be issued in payment of any amount due thereto.

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

1. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate appropriated and free of any previous encumbrances, the Board of Trustees may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipts of such certificate, if such expenditure is otherwise valid.
2. If the amount involved is less than \$1,000 dollars, the Township Clerk may authorize payment through a Then and Now Certificate without affirmation of the Board of Trustees.

During 2000 and 1999, 70% (42 out of 60) of expenditures tested were certified after the obligation date. Also, neither of the two exceptions were utilized. We recommend the Township Clerk inform all Township employees of the requirements of Ohio Rev. Code Section 5705.41(D). The Township should certify the availability of funds prior to incurring any obligation, in order to avoid overspending. The Township should also implement the use of so called Then and Now certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41 (D). However, such certifications should only be used for reoccurring and reasonably predictable matters or emergency matters which may arise from time to time.

FINDING NUMBER 2000-40938-002

**Ohio Rev. Code Section 135.18** provides that the fiscal officer shall require the institution designated as a public depository to pledge and deposit with him eligible securities of aggregate market value equal to the excess of deposits over and above those covered by the Federal Deposit Insurance Corporation (FDIC).

As of December 31, 2000, the Township had funds on deposit with a financial institution totaling \$38,341 (19% of the cash balance) which were not collateralized. To ensure public deposits are secured by either FDIC, surety company bonds or pledged securities, the Township Clerk should require the financial institution to provide security for those public funds deposited.

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2000 AND 1999**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
1998-40938-001	98% of the Township's expenditures were not certified in accordance with Ohio Rev. Code Section 5705.41 (D)	No	During 2000 and 1999, 70% of cash disbursements were not properly certified. The Board of Trustees are working in cooperation with the <b>new</b> Township Clerk to strengthen internal controls over cash disbursements.



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**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 11, 2001**