

**VILLAGE OF MECHANICSBURG**  
CHAMPAIGN COUNTY  
REGULAR AUDIT  
FOR YEARS ENDED DECEMBER 31, 2007 AND 2006

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
528 South West Street, P.O. Box 687  
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# Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Village of Mechanicsburg, Champaign County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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

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Mary Taylor, CPA  
Auditor of State

November 4, 2008

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VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**Independent Auditor's Report**

Village of Mechanicsburg  
18 North Main Street  
Mechanicsburg, Ohio 43044

We were engaged to audit the accompanying financial statements of the Village of Mechanicsburg, Champaign County, Ohio, (the Village) as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Village's management.

As discussed in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State of Ohio prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP requires presenting entity wide statements and also to present the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State of Ohio permits, but does not require governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis permitted by the Auditor of State.

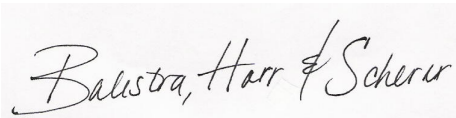
In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2007 and 2006, or its changes in financial position or cash flows, where applicable, for the years then ended.

Because of inadequacies in the Village's accounting records, we were unable to form an opinion regarding the amounts recorded as revenues, expenditures, and fund balances in the accompanying Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types and the Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary Fund Types and Similar Fiduciary Fund for the years ended December 31, 2007 and 2006. We were unable to satisfy ourselves as to the occurrence, completeness, accuracy, cutoff, or classification of the aforementioned transactions by means of other auditing procedures.

Because of the significance of the matters stated in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the prior paragraph for the years ended December 31, 2007 and 2006.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

September 30, 2008

**Village of Mechanicsburg**  
Champaign County, Ohio

*Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances*  
*All Governmental Funds*  
*For the Year Ended December 31, 2007*

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>Cash Receipts:</b>					
Local Taxes	\$ 42,444	\$ 44,234	\$ -	\$ -	\$ 86,678
Municipal Income Taxes	323,556	-	-	-	323,556
Intergovernmental	80,778	85,995	-	-	166,773
Special Assessments	2,099	-	-	-	2,099
Charges for Service	-	175,544	126,119	-	301,663
Fines, Licenses, and Permits	12,457	-	-	-	12,457
Miscellaneous	68,460	22,786	-	-	91,246
<b>Total Cash Receipts</b>	<b>529,794</b>	<b>328,559</b>	<b>126,119</b>	<b>-</b>	<b>984,472</b>
<b>Cash Disbursements:</b>					
<b>Current:</b>					
Security of Persons and Property	232,568	105,556	-	-	338,124
Public Health Services	-	116,235	-	-	116,235
Basic Utility Service	15,911	9,799	-	-	25,710
Transportation	-	91,345	-	-	91,345
General Government	127,877	13,000	-	-	140,877
Capital Outlay	-	1,275	-	-	1,275
<b>Debt Service:</b>					
Redemption of Principal	-	-	132,223	-	132,223
Interest and Other Fiscal Charges	-	-	27,568	-	27,568
<b>Total Cash Disbursements</b>	<b>376,356</b>	<b>337,210</b>	<b>159,791</b>	<b>-</b>	<b>873,357</b>
<b>Total Cash Receipts Over/(Under) Cash Disbursements</b>	<b>153,438</b>	<b>(8,651)</b>	<b>(33,672)</b>	<b>-</b>	<b>111,115</b>
<b>Other Financing Receipts and (Disbursements):</b>					
Transfers In	-	31,500	7,622	-	39,122
Transfers Out	(31,500)	-	-	-	(31,500)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>(31,500)</b>	<b>31,500</b>	<b>7,622</b>	<b>-</b>	<b>7,622</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<b>121,938</b>	<b>22,849</b>	<b>(26,050)</b>	<b>-</b>	<b>118,737</b>
<b>Fund Cash Balances, January 1</b>	<b>262,022</b>	<b>141,435</b>	<b>26,050</b>	<b>-</b>	<b>429,507</b>
<b>Fund Cash Balances, December 31</b>	<b>\$ 383,960</b>	<b>\$ 164,284</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 548,244</b>
<b>Reserved for Encumbrances, December 31</b>	<b>\$ 6,075</b>	<b>\$ 18,780</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 24,855</b>

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



**Village of Mechanicsburg**  
Champaign County, Ohio

*Combined Statement of Cash Receipts, Cash Disbursements, and Changes in  
Fund Cash Balances - Proprietary Fund Type and Similar Fiduciary Fund  
For the Year Ended December 31, 2007*

	Proprietary Fund	Fiduciary Fund	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Service	\$ 337,619	\$ -	\$ 337,619
Fines, Licenses, and Permits	-	12,759	12,759
Total Operating Cash Receipts	337,619	12,759	350,378
Operating Cash Disbursements:			
Personal Services	131,633	-	131,633
Contractual Services	51,789	-	51,789
Supplies and Materials	59,876	3,425	63,301
Other	83,594	132	83,726
Capital Outlay	-	2,509	2,509
Total Operating Cash Disbursements	326,892	6,066	332,958
Operating Income	10,727	6,693	17,420
Non-operating Cash Receipts:			
Other Non-operating Cash Receipts	-	8,844	8,844
Total Non-operating Cash Receipts	-	8,844	8,844
Non-operating Cash Disbursements:			
Redemption of Principal	(7,811)	-	(7,811)
Other Non-operating Cash Disbursements	-	(8,413)	(8,413)
Total Non-operating Cash Disbursements	(7,811)	(8,413)	(16,224)
Net Receipts Over/(Under) Disbursements	2,916	7,124	10,040
Fund Cash Balances, January 1	70,254	34,641	104,895
Fund Cash Balances, December 31	\$ 73,170	\$ 41,765	\$ 114,935
Reserved for Encumbrances, December 31	\$ 15,244	\$ -	\$ 15,244

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

**Village of Mechanicsburg**  
Champaign County, Ohio

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

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Project	
<b>Cash Receipts:</b>					
Local Taxes	\$ 40,727	\$ 45,163	\$ -	\$ -	\$ 85,890
Municipal Income Taxes	340,995	-	-	-	340,995
Intergovernmental	81,731	85,995	-	-	167,726
Special Assessments	2,175	-	-	-	2,175
Charges for Service	-	177,715	113,196	13,047	303,958
Fines, Licenses, and Permits	13,028	982	-	-	14,010
Miscellaneous	68,816	24,259	-	-	93,075
<b>Total Cash Receipts</b>	<b>547,472</b>	<b>334,114</b>	<b>113,196</b>	<b>13,047</b>	<b>1,007,829</b>
<b>Cash Disbursements:</b>					
<b>Current:</b>					
Security of Persons and Property	206,824	101,333	-	-	308,157
Public Health Services	-	100,551	-	-	100,551
Basic Utility Service	15,911	11,815	-	-	27,726
Transportation	-	115,232	-	-	115,232
General Government	149,120	13,000	-	-	162,120
Capital Outlay	-	1,275	-	-	1,275
<b>Debt Service:</b>					
Redemption of Principal	-	-	131,335	-	131,335
Interest and Other Fiscal Charges	-	-	29,147	-	29,147
<b>Total Cash Disbursements</b>	<b>371,855</b>	<b>343,206</b>	<b>160,482</b>	<b>-</b>	<b>875,543</b>
<b>Total Cash Receipts Over/(Under) Cash Disbursements</b>	<b>175,617</b>	<b>(9,092)</b>	<b>(47,286)</b>	<b>13,047</b>	<b>132,286</b>
<b>Other Financing Receipts and (Disbursements):</b>					
Transfers In	-	-	59,065	-	59,065
Transfers Out	(12,000)	(3,279)	-	-	(15,279)
Advances In	2,500	22,000	-	-	24,500
Advances Out	(22,000)	(2,500)	-	-	(24,500)
Other Financing Sources	-	-	-	2,049	2,049
Other Financing Uses	(9,164)	-	-	-	(9,164)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>(40,664)</b>	<b>16,221</b>	<b>59,065</b>	<b>2,049</b>	<b>36,671</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements</b>	<b>134,953</b>	<b>7,129</b>	<b>11,779</b>	<b>15,096</b>	<b>168,957</b>
<b>Fund Cash Balances, January 1</b>	<b>149,249</b>	<b>141,435</b>	<b>657</b>	<b>47,273</b>	<b>338,614</b>
<b>Fund Cash Balances, December 31</b>	<b>\$ 284,202</b>	<b>\$ 148,564</b>	<b>\$ 12,436</b>	<b>\$ 62,369</b>	<b>\$ 507,571</b>
<b>Reserved for Encumbrances, December 31</b>	<b>\$ 3,090</b>	<b>\$ 13,864</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,954</b>

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

**Village of Mechanicsburg**  
Champaign County, Ohio

*Combined Statement of Cash Receipts, Cash Disbursements, and Changes in  
Fund Cash Balances - Proprietary Fund Type and Similar Fiduciary Fund  
For the Year Ended December 31, 2006*

	Proprietary Fund	Fiduciary Fund	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Service	\$ 335,117	\$ -	\$ 335,117
Fines, Licenses, and Permits	-	12,759	12,759
Miscellaneous	17,033	-	17,033
Total Operating Cash Receipts	352,150	12,759	364,909
Operating Cash Disbursements:			
Personal Services	125,104	-	125,104
Contractual Services	52,594	-	52,594
Supplies and Materials	56,278	3,425	59,703
Other	84,677	132	84,809
Capital Outlay	2,550	2,509	5,059
Total Operating Cash Disbursements	321,203	6,066	327,269
Operating Income	30,947	6,693	37,640
Non-operating Cash Receipts:			
Other Non-operating Cash Receipts	-	8,701	8,701
Total Non-operating Cash Receipts	-	8,701	8,701
Non-operating Cash Disbursements:			
Redemption of Principal	(7,713)	-	(7,713)
Other Non-operating Cash Disbursements	-	(8,179)	(8,179)
Total Non-operating Cash Disbursements	(7,713)	(8,179)	(15,892)
Excess of Receipts Over Disbursements Before Interfund Transfers and Advances	23,234	7,215	30,449
Transfers Out	(9,146)	-	(9,146)
Net Receipts Over/(Under) Disbursements	14,088	7,215	21,303
Fund Cash Balances, January 1	67,339	27,426	94,765
Fund Cash Balances, December 31	<u>\$ 81,427</u>	<u>\$ 34,641</u>	<u>\$ 116,068</u>
Reserved for Encumbrances, December 31	<u>\$ 11,298</u>	<u>\$ -</u>	<u>\$ 11,298</u>

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

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2007 and 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

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

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

**B. Basis of Accounting**

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

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

**C. Cash and Investments**

Certificates of deposit are valued at cost.

**D. Fund Accounting**

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

**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 or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

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

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2007 and 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**D. Fund Accounting**

**3. Capital Project Funds**

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

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

**4. Fiduciary Funds (Agency Funds)**

Funds for which the Village is acting in an agency capacity are classified as agency funds:

*Mayor's Court Fund-* This fund receives revenues from fines.

**5. Enterprise Funds**

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

*Water, Sewer, and Surcharge Funds-*These funds are used to account for proceeds from water and sewer operations. The revenue is to be used to maintain plant operations and for water and sewer improvements.

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

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

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

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2007 and 2006**

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

**E. Budgetary Process (Continued)**

**3. Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end need not be re-appropriated.

A summary of 2007 and 2006 budgetary activity appears in Note 6.

**F. Property, Plant and Equipment**

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

**G. Accumulated Leave**

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

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

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

	2007	2006
Demand deposits	\$659,417	\$620,017
Certificates of deposit	3,762	3,622
Total deposits	\$663,179	\$623,639

**Deposits:** Deposits are either insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

**3. RETIREMENT SYSTEMS**

The Village's law enforcement officers belong to the Police & Firemen's Disability & Pension Funds (PFDPF). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PFDPF and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including post retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2007 and 2006, members of PFDPF contributed 10% of their wages to the PFDPF. The Village contributed an amount equal to 19.5% of their wages. For 2007 and 2006, PERS members contributed 9.5% and 9%, respectively, of their gross salaries and the Village contributed an amount equal to 13.85% and 13.7%, respectively, of participants' gross salaries. As of December 31, 2007, the Village had paid 100% of its required contribution for 2007 and 2006.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2007 and 2006**

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by 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 payment, the first half is due December 31. The second half payment is due the following June 20.

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

**5. LOCAL INCOME TAX**

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

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

Effective December 31, 2004, the Village contracted with the Regional Income Tax Agency (RITA) and authorized them to administer the municipal income tax collections on behalf of the Village.

**6. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 474,382	\$ 529,794	\$ 55,412
Special Revenue	283,710	360,059	76,349
Debt Service	122,226	133,741	11,515
Capital Projects	65,600	-	(65,600)
Enterprise	335,000	337,619	2,619
Agency	29,000	21,603	(7,397)
Total	\$ 1,309,918	\$ 1,382,816	\$ 72,898

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2007 and 2006**

**6. BUDGETARY ACTIVITY (Continued)**

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 412,760	\$ 413,931	\$ (1,171)
Special Revenue	356,961	355,990	971
Debt Service	148,481	159,791	(11,310)
Capital Project	-	-	-
Enterprise	337,552	349,947	(12,395)
Agency	15,979	14,479	1,500
Total	<u>\$ 1,271,733</u>	<u>\$ 1,294,138</u>	<u>\$ (22,405)</u>

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 450,712	\$ 547,472	\$ 96,760
Special Revenue	413,425	334,114	(79,311)
Debt Service	141,000	172,261	31,261
Capital Project	16,100	15,096	(1,004)
Enterprise	310,000	352,150	42,150
Agency	2,800	21,460	18,660
Total	<u>\$ 1,334,037</u>	<u>\$ 1,442,553</u>	<u>\$ 108,516</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 408,954	\$ 396,109	\$ 12,845
Special Revenue	362,799	360,349	2,450
Debt Service	160,482	160,482	-
Capital Project	-	-	-
Enterprise	349,355	340,214	9,141
Agency	14,245	14,245	-
Total	<u>\$ 1,295,835</u>	<u>\$ 1,271,399</u>	<u>\$ 24,436</u>

**7. RISK MANAGEMENT**

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 Ohio governments ("Members").

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

The Plan issues its own policies and reinsures the Plan with A-VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan retains the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses.

Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.



**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2007 and 2006**

**7. RISK MANAGEMENT (Continued)**

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

The Pool's audited financial statements conform to generally accepted accounting principles, and reported the following assets, liabilities, and retained earnings at December 31:

	2007	2006
Assets	\$11,136,455	\$9,620,148
Liabilities	(4,273,553)	(3,329,620)
Member's Equity	\$6,862,902	\$6,290,528

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

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

**8. DEBT**

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
OWDA Sewer Retirement Loan	\$ 27,354	6.25%
OWDA Sewer Retirement Loan (1991)	253,499	2.00%
OWDA Elevated Storage Tank Loan	306,469	5.01%
Total	\$ 587,322	

During 1972, the Ohio Sewer Retirement Loan through the Ohio Water Development Authority was entered into for the purpose of expanding and improving the sewer system. The total loan was for \$244,405 with an interest rate of 6.25%, and payments of principal and interest are required over 40 years through July 1, 2011. As of December 31, 2007, the Village has an outstanding balance on the loan of \$27,354.

During 1991, the Village entered into a second loan agreement with the Ohio Water Development Authority for assistance in expanding and improving the Village's sewer system. The total loan amount was for \$1,500,000 with an interest rate of 2.00%, and payments of principal and interest are required over 20 years through July 1, 2010. As of December 31, 2007, the Village has an outstanding balance on the loan of \$253,499.

During 2004, the Village entered into a loan agreement with the Ohio Water Development Authority for assistance in expanding and improving the Village's elevated storage tank. The total loan amount was for \$323,474 with an interest rate of 5.01%. The outstanding balance on this loan, including capitalized interest, at December 31, 2007 is \$306,469. As of December 31, 2007, and up to the report date, this loan was still open and there was not amortization schedule available.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2007 and 2006**

**8. DEBT (Continued)**

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

Year Ending December 31,	Principal Amount	Interest Amount	Total Amount
2008	\$ 110,693	\$ 12,241	\$ 122,934
2009	95,877	3,575	99,452
2010	40,967	3,366	44,333
2011	33,316	2,563	35,879
Total on above loans	280,853	<u>\$ 21,745</u>	<u>\$ 302,598</u>
2004 OWDA Loan	<u>306,469</u>	(no amortization schedule)	
Total Principal	<u>\$ 587,322</u>		

**9. LEASE OBLIGATIONS**

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

The Village entered into a lease agreement during 2004 with Dell Financial for new computers in the police station. The term consisted of monthly payments of \$88 through February 2008.

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

Description	Term	2008
GE Capital- Projector	07/12/03 - 7/12/08	\$ 210
Dell Financial- Computers	01/30/04 - 2/28/08	176
Total		<u>\$ 386</u>

**10. COMPLIANCE**

Contrary to Ohio law, the Village made transfers without Council approval.

Contrary to Ohio law, the Village did not certify expenditures prior to making order or contracts.

Contrary to Ohio law, the Village's budgetary basis expenditures exceeded appropriations in the General fund, Debt Service Funds, and Enterprise Funds as of December 31, 2007.

Contrary to Ohio law, the Village did not maintain an accurate record of all monies received.

**BALESTRA, HARR & SCHERER, CPAs, INC.**

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

Village of Mechanicsburg  
18 North Main Street  
Mechanicsburg, Ohio 43044

We were engaged to audit the financial statements of Village of Mechanicsburg, Champaign County, Ohio (the Village), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated September 30, 2008, wherein we noted the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America and in which we indicated that because of inadequacy in the Village's accounting records, we were unable to form an opinion over cash receipts, cash disbursement, and cash fund balance in the accompanying financial statements.

**Internal Control Over Financial Reporting**

We were engaged to audit the financial statements of the Village and not to provide an opinion on the internal control over financial reporting. As noted in the previous paragraph we were unable to form an opinion on the accompanying financial statements. We noted certain matters involving the internal controls over financial reporting and its operation that we significant deficiencies. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village'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 Government'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, listed as items 2007-004 through 2007-008.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider finding numbers 2007-005 through 2007-008 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated September 30, 2008.

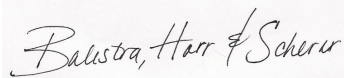
### **Compliance and Other Matters**

As part of reasonably assuring whether the Village'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 effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2007-001 through 2007-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated September 30, 2008.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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



Balestra, Harr & Scherer, CPAs, Inc.  
September 30, 2008

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

Schedule of Findings and Responses  
For the Fiscal Years Ended December 31, 2007 and 2006

**Finding Number 2007-001**

**Material Noncompliance – Prior Certification of Expenditures**

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

The section also provides the following exception to this requirement:

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

Numerous expenditures tested for 2006 and 2007 were initiated without obtaining the prior certification of the Clerk. None of these expenditures met the exception provided for in section 5705.41(D) (i.e., then and now certificate).

Procedures should be adopted by the Village that would assure that commitments are properly encumbered prior to the expenditure of Village funds.

**Client Response:**

The Village has implemented many new policies and does a much better job monitoring the certification of expenditures.

**Finding Number 2007-002**

**Material Noncompliance – Inter-fund Transfers**

Ohio Revised Code Sections 5705.14, 5705.15, & 5705.16 provides guidelines pertaining to allowable inter-fund transfers. Generally, before an inter-fund transfer can be made from the General Fund, a resolution of the taxing authority shall be passed by a majority vote of the Village Council. Transfers from any fund other than the General Fund must have proper court approval or meet one of the exceptions noted in the Ohio Revised sections noted above.

We noted that none of the transfers throughout the year were appropriately approved by resolution of the Village Council. The Village Clerk should obtain approval from Village Council prior to transferring money from any fund and the Village Council should be apprised of all information involving transfers and the Council should take action immediately when the policies and procedures of the transfer system are not appropriately followed. We also recommend referring to the Ohio Revised Code and the Village Officer’s handbook provided by the Auditor of State when completing transfers to make sure they are being handled properly.

**Client Response:**

The Village intends on monitoring this issue throughout the year by acquiring the appropriate permission to transfer any and all funds and reviewing the appropriate reports to determine that controls are in place.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

Schedule of Findings and Responses  
For the Fiscal Years Ended December 31, 2007 and 2006

**Finding Number 2007-003**

**Material Noncompliance – Public Property**

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

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

**Client Response:**

The Village is aware of the above issue and is currently reviewing the procedures to prevent this condition from occurring in the future.

**Finding Number 2007-004**

**Significant Deficiency – Record Retention**

During our examination and testing of expenditures, we noted that Village employees did not retain an approved purchase order and in certain instances other adequate support for several of the expenditures tested in 2006 and 2007. Adequate documentation is a key element of an internal control system; this condition limits the control and accountability over Village expenditures and allows for the possibility of improper payment to occur. The Village should retain invoices for all expenditures to support the proper public purpose of the payment.

**Client Response:**

The Village is aware of the above issue and is currently reviewing the procedures to prevent this condition from occurring in the future.

**Finding Number 2007-005**

**Material Weakness – Approval of Invoices**

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

**Client Response:**

The Village has implemented many new policies and does a much better job monitoring the certification of expenditures.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

Schedule of Findings and Responses  
For the Fiscal Years Ended December 31, 2007 and 2006

**Finding Number 2007-006**

**Material Weakness – Incomplete Bank Reconciliations**

The Fiscal Officer/Clerk did not accurately perform monthly bank reconciliations. The outstanding check listings were inaccurate and incomplete or not maintained for review. Failure to accurately reconcile bank balances to the cash journal resulted in errors in the accounting system occurring and going undetected by management. The cash journal should be reconciled to the bank statements with an explanation of reconciling items on a monthly basis. The Village Council should review monthly bank reconciliations and sign them to evidence their review to assist with the verification of accountability over all Village assets. Furthermore, all documentation such as outstanding check listings should be maintained.

**Client Response:**

The Village intends to complete monthly bank reconciliations, with an explanation of any and all reconciling items and provide them to the Village Council for their review and approval. This review process will assist in the monitoring of the reconciliations balancing each month to the proper funds balances and the Village's accountability over the assets.

**Finding Number 2007-007**

**Material Weakness – Village Council Fiduciary Responsibility & Maintenance of Financial Records**

As the governing body of the Village, the Council has a number of responsibilities, including the ultimate responsibility for the Village's continued financial and operational stability. Each council member is elected by the public and entrusted with a fiduciary responsibility to ensure that the Village serves its purpose. The proper expenditure of public funds is a responsibility that should not be neglected. We encourage all council members to participate actively in council meetings and to continuously monitor the Village's financial operations. Active participation includes continuous monitoring of the Village's expenditures and revenues. During this review the Village Council should be looking for unusual items and taking prompt action, as necessary. The Village Council also needs to reevaluate the current internal control system in place and recommend changes as necessary.

For the years ended 2007 and 2006, the Village's accounting records were maintained in a manner where information was missing and complete. The Village's fiscal operations were not monitored appropriately, which allowed the financial records to remain incomplete and inaccurate. The lack of monitoring financial activities ultimately results in Council's inability to control resources and make sound financial decisions.

The posting of financial activity should be performed accurately and in a timely fashion, and bank reconciliations should be performed monthly, including reconciliations between bank balances and book balances. The Village Council should review the financial reports on a monthly basis.

To assist with determining that accurate financial information is provided, the Council should develop and implement policies and monitor control procedures for assurance as to the timeliness and reliability of financial information within the Village.

Beyond the responsibilities for monitoring and implementing control procedures for the Village's operations, the Council should demonstrate a commitment to the highest ethical standards and this commitment needs to be communicated and adopted throughout the Village.

In addition, we recommend that management review the requirements in the Ohio Compliance Supplement (2006 Revision) (7-5, 7-6). These compliance sections require that governments formalize their policies on reimbursement for expenditures and the use of public property (i.e., cash, automobiles, credit cards, computer, cell phones, etc.).

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

Schedule of Findings and Responses  
For the Fiscal Years Ended December 31, 2007 and 2006

**Finding Number 2007-007 (Continued)**

The Village Council has the fiduciary responsibility to implement programs which will assist with reasonable fraud detection. Implementation of each of the items addressed above, among other things, will assist with reasonable fraud detection and prevention throughout the Village.

**Client Response:**

The Village has implemented many new policies and is constantly striving to improve the Village's record retention and controls.

**Finding Number 2007-008**

**Material Weakness – Internal Controls**

Internal control is defined commonly as “a process, effected by an entity’s governing body, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations.”

The responsibility for establishing an effective system of internal controls and periodically reviewing this system lies with the Village Council. A well-designed system would provide reasonable assurance that the Village's financial reporting is reliable, its operations are effective and efficient, and that it complies with applicable laws and regulations.

During our audit, we noted the following as an example of the internal controls that are lacking and should be strengthened immediately;

- Reconciliations between bank balances and the general ledger should be performed on a monthly basis and any issues addressed promptly. This will assist in detecting errors in the financial banking records. During our testing we noted that often when reconciliations were attempted they were either incomplete or incorrect.
- The segregation of duties is an integral part of system controls within the Village. This includes separating the duties of billing, collection, depositing, recording, making payments, and reconciliation. The segregation of duties could be strengthened in each of the areas above to make the controls more effective within the Village. This is an area that is difficult for many of the Villages to implement effectively due to such a small number of employees. The Village should segregate to the best of their ability to provide for separation of duties between employees. This will assist with the checks and balances throughout the Village in the various processing cycles.
- The Village's filing system was in disarray because documents were not filed consistently or logically. During our testing we noted that monthly consumption reports for water and sewer, monthly bank statements, invoices, purchase orders, debt agreements, federal 941's, and other miscellaneous documents could not be located. The Village should create consistent and logical filing systems.



**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

Schedule of Findings and Responses  
For the Fiscal Years Ended December 31, 2007 and 2006

**Finding Number 2007-008 (Continued)**

- The Village should only pay vendors based upon certified purchase orders, properly approved requisition forms for employee reimbursements with detailed receipts. Once these are paid, they should be clearly marked or stamped as paid with the appropriate documentation attached to support the payment made. This procedure will assist with avoiding duplicate payments and potential loss to the Village.
- It is imperative that all Village expenditures be reviewed by someone other than the clerk/fiscal officer to ensure that they are properly authorized and expensed for proper public purpose and coded to the appropriate funds when paid. This review will also help to ensure that payments are made for the correct amounts and to the correct vendors.
- Posting to financial records should be accurate and complete. Classifications should be reviewed for accuracy.
- Year end financial reports should be accurately prepared based on system balances. A person knowledgeable in the Village's basis of accounting should review these reports prior to submission for audit.

We recommend that the Village perform a thorough review of its current system of internal controls and determine what areas can be improved to better address the internal controls of the Village. The items listed above are just a number of the improvements we feel are necessary to assist with addressing the lack of controls in the areas noted.

**Client Response**

The Village has implemented many new policies and is constantly striving to improve the Village's record retention and internal controls.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

**Schedule of Prior Audit Findings  
Years Ended December 31, 2007 and 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	Citation ORC 5705.41(D) – Prior Certification of Expenditures	No	Re-issued finding number 2007-001
2005-002	Citation ORC 5705.41(C) – Proper Classification of Funds	Yes	N/A
2005-003	Citation ORC 5705.14, 5705.15, 5705.16 – Inter-fund Transfers	No	Re-issued finding number 2007-002
2005-004	Citation ORC 149.351(A) – Public Property	No	Re-issued finding number 2007-003.
2005-005	Reportable Condition – Record Retention	No	Re-issued finding number 2007-004.
2005-006	Reportable Condition – Approval of Invoices	No	Re-issued finding number 2007-005.
2005-007	Reportable Condition – Auditor of State Special Report	Yes	N/A
2005-008	Material Weakness – Incomplete Bank Reconciliations	No	Re-issued finding number 2007-006.
2005-009	Material Weakness – Village Council Fiduciary Responsibility and Maintenance of Financial Records	No	Re-issued finding number 2007-007.
2005-010	Material Weakness – Internal Controls	No	Re-issued finding number 2007-008.



**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF MECHANICSBURG**

**CHAMPAIGN COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 18, 2008**