

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

***FINANCIAL STATEMENTS
(AUDITED)***

FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011

HEIDI HURON, FISCAL OFFICER



Dave Yost • Auditor of State

Members of Council
Village of Manchester
400 Pike Street
Manchester, Ohio 45144

We have reviewed the *Independent Auditor's Report* of the Village of Manchester, Adams County, prepared by Julian & Grube, Inc., for the audit period January 1, 2011 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 17, 2014

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**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

Village of Manchester
Adams County
400 Pike Street
Manchester, Ohio 45144

To the Members of Council and Mayor:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Manchester, Adams County, Ohio, as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village of Manchester's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village of Manchester's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we have obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village of Manchester prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-02-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter described in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village of Manchester as of December 31, 2012 and 2011, or changes in the financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Manchester, Adams County, Ohio, as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permits, described in Note 1.

Emphasis of Matter

As discussed in Note 11 to the financial statements, during 2011, the Village of Manchester adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". We did not modify our opinion regarding this matter.

As described further in Note 11, the Village of Manchester changed its accounting basis from Governmental Accounting Standard No. 34 *Basic Financial Statements - Cash Basis* to the cash (regulatory) basis of accounting. We did not modify our opinion regarding this matter.

As disclosed in Note 12, on September 29, 1997, the Auditor of State declared the Village of Manchester to be in a state of fiscal emergency, in accordance with Section 118.03 of the Ohio Revised Code. We did not modify our opinion regarding this matter.

As disclosed in Note 14, the Village of Manchester has restated its General fund, Capital Projects Fund Type and Enterprise Fund Type fund balances and respective cash balances at January 1, 2011 to properly record General fund cash and fund balance, Capital Projects cash and fund balance as Enterprise cash and fund balance. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2014, on our consideration of the Village of Manchester'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Manchester's internal control over financial reporting and compliance.



Julian & Grube, Inc.
March 12, 2014

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS) - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Debt Service	
Cash receipts:				
Local taxes	\$ 37,140	\$ 104,585	\$ 23,147	\$ 164,872
Income tax	136,179	-	-	136,179
Intergovernmental	21,301	208,999	4,509	234,809
Charges for services	5,638	150,939	-	156,577
Fines, licenses, and permits	31,429	2,739	-	34,168
Interest	365	-	-	365
Miscellaneous	669	7,169	-	7,838
Total cash receipts	<u>232,721</u>	<u>474,431</u>	<u>27,656</u>	<u>734,808</u>
Cash disbursements:				
Current:				
Security of persons and property	7,008	514,879	-	521,887
Public health services	2,861	-	-	2,861
Transportation	-	91,532	-	91,532
General government	94,489	500	913	95,902
Capital outlay	-	3,808	-	3,808
Debt service:				
Principal retirement	-	17,743	34,000	51,743
Interest	-	3,914	6,500	10,414
Total cash disbursements	<u>104,358</u>	<u>632,376</u>	<u>41,413</u>	<u>778,147</u>
Total cash receipts (under)/over cash disbursements	<u>128,363</u>	<u>(157,945)</u>	<u>(13,757)</u>	<u>(43,339)</u>
Other financing receipts/(disbursements):				
Proceeds from sale of notes	-	6,500	-	6,500
Operating transfers in	-	124,758	-	124,758
Operating transfers out	(124,758)	-	-	(124,758)
Total other financing receipts/(disbursements)	<u>(124,758)</u>	<u>131,258</u>	<u>-</u>	<u>6,500</u>
Net change in fund cash balances	3,605	(26,687)	(13,757)	(36,839)
Fund cash balances, January 1, 2012	<u>27,734</u>	<u>120,351</u>	<u>54,626</u>	<u>202,711</u>
Fund cash balances:				
Restricted	-	113,850	40,869	154,719
Assigned	8,954	-	-	8,954
Unassigned	22,385	(20,186)	-	2,199
Fund cash balances, December 31, 2012	<u>\$ 31,339</u>	<u>\$ 93,664</u>	<u>\$ 40,869</u>	<u>\$ 165,872</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

COMBINED STATEMENT OF RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES
(CASH BASIS) - ALL PROPRIETARY AND FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2012

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Agency	
Operating cash receipts:			
Charges for services	\$ 782,537	\$ -	\$ 782,537
Total operating cash receipts	<u>782,537</u>	<u>-</u>	<u>782,537</u>
Operating cash disbursements:			
Personal services	139,878	-	139,878
Employee fringe benefits	98,896	-	98,896
Contractual services	51,755	-	51,755
Supplies and material	178,720	-	178,720
Total operating cash disbursements	<u>469,249</u>	<u>-</u>	<u>469,249</u>
Operating income	<u>313,288</u>	<u>-</u>	<u>313,288</u>
Nonoperating cash receipts/(disbursements):			
Special assessments	22,637	-	22,637
Proceeds of notes	152,200	-	152,200
Capital outlay	(189,110)	-	(189,110)
Fines Collected	-	32,063	32,063
Fines Disbursed	-	(30,482)	(30,482)
Debt service:			
Principal	(93,984)	-	(93,984)
Interest	(84,984)	-	(84,984)
Total nonoperating cash receipts/(disbursements)	<u>(193,241)</u>	<u>1,581</u>	<u>(191,660)</u>
Income before operating transfers	120,047	1,581	121,628
Transfers in	166,886	-	166,886
Transfers out	<u>(166,886)</u>	<u>-</u>	<u>(166,886)</u>
Net change in fund cash balances	120,047	1,581	121,628
Fund cash balances, January 1, 2012	<u>86,252</u>	<u>1,721</u>	<u>87,973</u>
Fund cash balances, December 31, 2012	<u>\$ 206,299</u>	<u>\$ 3,302</u>	<u>\$ 209,601</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS) - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Governmental Fund Types			Total (Memorandum Only)
	General	Special Revenue	Debt Service	
Cash receipts:				
Local taxes	\$ 27,882	\$ 97,491	\$ 35,006	\$ 160,379
Income tax	137,719	-	-	137,719
Intergovernmental	66,274	245,257	6,690	318,221
Charges for services	7,402	229,006	-	236,408
Fines, licenses, and permits	33,756	1,359	-	35,115
Interest	441	-	-	441
Miscellaneous	3,575	7,054	-	10,629
Total cash receipts	<u>277,049</u>	<u>580,167</u>	<u>41,696</u>	<u>898,912</u>
Cash disbursements:				
Current:				
Security of persons and property	-	502,847	-	502,847
Leisure time activities	-	490	-	490
Community environment	2,550	-	-	2,550
Transportation	-	80,456	-	80,456
General government	102,348	102	107	102,557
Capital outlay	-	53,133	-	53,133
Debt service:				
Principal retirement	-	34,183	32,000	66,183
Interest	-	3,924	8,400	12,324
Total cash disbursements	<u>104,898</u>	<u>675,135</u>	<u>40,507</u>	<u>820,540</u>
Total cash receipts (under)/over cash disbursements	<u>172,151</u>	<u>(94,968)</u>	<u>1,189</u>	<u>78,372</u>
Other financing receipts/(disbursements):				
Operating transfers in	-	90,000	-	90,000
Operating transfers out	(118,000)	-	-	(118,000)
Other sources	-	10,891	-	10,891
Total other financing receipts/(disbursements)	<u>(118,000)</u>	<u>100,891</u>	<u>-</u>	<u>(17,109)</u>
Net change in fund cash balances	54,151	5,923	1,189	61,263
Fund cash balances, January 1, 2011 (Restated)	<u>(26,417)</u>	<u>114,428</u>	<u>53,437</u>	<u>141,448</u>
Fund cash balances:				
Restricted	-	140,537	54,626	195,163
Assigned	7,499	-	-	7,499
Unassigned	20,235	(20,186)	-	49
Fund cash balances, December 31, 2011	<u>\$ 27,734</u>	<u>\$ 120,351</u>	<u>\$ 54,626</u>	<u>\$ 202,711</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

COMBINED STATEMENT OF RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES
(CASH BASIS) - ALL PROPRIETARY AND FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2011

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Agency	
Operating cash receipts:			
Charges for services	\$ 469,984	\$ -	\$ 469,984
Total operating cash receipts	<u>469,984</u>	<u>-</u>	<u>469,984</u>
Operating cash disbursements:			
Personal services	150,868	-	150,868
Employee fringe benefits	85,357	-	85,357
Contractual services	20,752	-	20,752
Supplies and material	236,371	-	236,371
Total operating cash disbursements	<u>493,348</u>	<u>-</u>	<u>493,348</u>
Operating income/(loss)	<u>(23,364)</u>	<u>-</u>	<u>(23,364)</u>
Nonoperating cash receipts/(disbursements):			
Special assessments	12,887	-	12,887
Proceeds of notes	43,648	-	43,648
Capital outlay	(10,934)	-	(10,934)
Fines Collected	-	34,513	34,513
Fines Disbursed	-	(36,645)	(36,645)
Debt service:			
Principal	(85,732)	-	(85,732)
Interest	(85,916)	-	(85,916)
Total nonoperating cash receipts/(disbursements)	<u>(126,047)</u>	<u>(2,132)</u>	<u>(128,179)</u>
Income/(loss) before operating transfers	(149,411)	(2,132)	(151,543)
Transfers in	194,500	-	194,500
Transfers out	<u>(166,500)</u>	<u>-</u>	<u>(166,500)</u>
Net change in fund cash balances	(121,411)	(2,132)	(123,543)
Fund cash balances, January 1, 2011 (Restated)	<u>207,663</u>	<u>3,853</u>	<u>211,516</u>
Fund cash balances, December 31, 2011	<u>\$ 86,252</u>	<u>\$ 1,721</u>	<u>\$ 87,973</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Manchester, Adams County, (the "Village") as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services, water and sewer utilities, maintenance of Village streets and bridges, park operations and police and fire services.

The Village participates in a public entity risk pool. Note 9 to the financial statements provides additional information for this entity.

Public Entity Risk Pool:

The Village is a member of the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements 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 the Auditor of State prescribes or permits.

C. Cash and Cash Equivalents

Certificates of deposit are valued at cost. Village funds are maintained in an interest bearing checking account, savings account and certificates of deposit with a local commercial bank.

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 accounts for and reports all financial resources not accounted for and reported in another fund.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

EMS Levy Fund - The EMS Levy Fund accounts for levy monies received from Adams County, along with charges for services for providing emergency medical treatment to the citizens of the Village and surrounding areas.

Police Levy Fund - The Police Levy Fund accounts for property tax monies to provide police protection for the Village.

3. Debt Service Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Village had the following significant Debt Service Fund:

Fire Debt Service Fund - The Fire Debt Service Fund accounts for property tax monies that are used for payment of principal and interest on the Fire Truck Acquisition Bonds.

4. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Operating Fund - The Water Operating Fund accounts for the provision of water to the residents and commercial users located within the Village.

Sewer Operating Fund - The Sewer Operating Fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

5. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for money held for other governments, individuals and organizations for the distribution of mayor's court fines.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) 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. 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 approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2012 and 2011 budgetary activity appears in Note 3.

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

I. Interfund Transactions

During the course of normal operations, the Village had transactions between funds. The most significant include transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the necessary fund and are recorded as operating transfers. Residual equity transfers are nonrecurring or non-routine transfers of equity between funds.

Transfers are intended to permanently reallocate money from one fund to another as authorized in the Ohio Revised Code Sections 5705.14 to 5705.16.

NOTE 2 - EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	2012	2011
Demand deposits	\$290,989	\$206,200
Certificates of deposit	84,484	84,484
Total deposits	\$ 375,473	\$ 290,684

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 2 - EQUITY IN POOLED DEPOSITS AND INVESTMENTS - (Continued)

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Village; or collateralized by the financial institution's public entity deposit pool.

NOTE 3 - BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 240,300	\$ 232,721	\$ (7,579)
Special Revenue	600,499	605,689	5,190
Debt Service	212,500	27,656	(184,844)
Enterprise	694,409	1,124,260	429,851
Total	\$ 1,747,708	\$ 1,990,326	\$ 242,618

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 239,036	\$ 238,070	\$ 966
Special Revenue	614,345	677,721	(63,376)
Debt Service	43,000	41,413	1,587
Enterprise	851,746	1,054,687	(202,941)
Total	\$ 1,748,127	\$ 2,011,891	\$ (263,764)

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 240,757	\$ 277,049	\$ 36,292
Special Revenue	551,850	681,058	129,208
Debt Service	202,600	41,696	(160,904)
Enterprise	661,500	721,019	59,519
Total	\$ 1,656,707	\$ 1,720,822	\$ 64,115

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 238,803	\$ 230,397	\$ 8,406
Special Revenue	581,962	702,680	(120,718)
Debt Service	43,440	40,507	2,933
Enterprise	844,241	881,963	(37,722)
Total	\$ 1,708,446	\$ 1,855,547	\$ (147,101)

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 4 - INTERFUND TRANSACTIONS

The following is a summarized breakdown of the Village's operating transfers for 2012 and 2011:

2012

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 124,758
<u>Special Revenue Fund</u>		
Police Levy	124,758	-
<u>Enterprise Funds</u>		
Water Operating	-	85,762
Water Repair and Improvement	3,000	-
Sewer Operating	-	81,124
Sewer Debt	74,124	-
Water Debt	82,762	-
Sewer Reserve	7,000	-
Total Enterprise Funds	<u>166,886</u>	<u>166,886</u>
Total	<u>\$ 291,644</u>	<u>\$ 291,644</u>

2011

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 118,000
<u>Special Revenue Fund</u>		
Police Levy	90,000	-
<u>Enterprise Funds</u>		
Water Operating	-	78,500
Water Repair and Improvement	3,500	-
Sewer Operating	28,000	88,000
Sewer Debt	78,000	-
Water Debt	75,000	-
Sewer Reserve	10,000	-
Total Enterprise Funds	<u>194,500</u>	<u>166,500</u>
Total	<u>\$ 284,500</u>	<u>\$ 284,500</u>

The above transfers were made in accordance with the Ohio Revised Code Sections 5705.14, 5704.15 and 5705.16.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 5 - PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, 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.

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

NOTE 6 - LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. The Village contracts with the Regional Income Tax Agency for collection.

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.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 7 - DEBT

The Village's long-term debt activity for the year ended December 31, 2012, was as follows:

<u>Types/Issues</u>	<u>Balance 12/31/2011</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/2012</u>
<u>Business-Type Activities</u>				
<u>General Obligation Bonds</u>				
2002 Water System Improvement Bonds 5.25%	\$ 103,500	\$ -	\$ (15,600)	\$ 87,900
<u>Mortgage Revenue Bonds</u>				
Water Fund				
2004 USDA Rural Development Mortgage Revenue Bonds 4.375%	487,470	-	(6,861)	480,609
Sewer Fund				
1998 Sanitary Sewer System Mortgage Revenue Bonds Series A 4.50%	802,600	-	(16,900)	785,700
1998 Sanitary Sewer System Mortgage Revenue Bonds Series B 4.50%	118,900	-	(17,700)	101,200
Total Sewer Fund	921,500	-	(34,600)	886,900
Total Mortgage Revenue Bonds	1,408,970	-	(41,461)	1,367,509
<u>Other Long-Term Obligations</u>				
2004 OWDA Water Treatment and Wellfield Improvement Loan 1.50%	803,655	-	(28,048)	775,607
2010 OWDA Storm Sewer Replacement Loan 1.50%	120,498	-	(2,925)	117,573
2011 OWDA Storm Sewer Construction Loan 1.50%	38,485	152,200	(5,950)	184,735 *
Total Business-Type Activities	<u>\$ 2,475,108</u>	<u>\$ 152,200</u>	<u>\$ (93,984)</u>	<u>\$ 2,533,324</u>
<u>Governmental Activities</u>				
<u>Other Long-Term Obligation</u>				
2007 Fire Truck Loan 6.0%	\$ 108,000	\$ -	\$ (34,000)	\$ 74,000
2010 Ambulance Acquisition Notes 4.5%	63,406	-	(14,820)	48,586
Fire Station Bonds 3.5%	-	6,500	(2,923)	3,577
Total Governmental Activities	<u>\$ 171,406</u>	<u>\$ 6,500</u>	<u>\$ (51,743)</u>	<u>\$ 126,163</u>

*Amortization Schedule is not available at this time.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 7 - DEBT - (Continued)

The Village's long-term debt activity for the year ended December 31, 2011, was as follows:

<u>Types/Issues</u>	<u>Balance 12/31/2010</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/2011</u>
<u>Business-Type Activities</u>				
<u>General Obligation Bonds</u>				
2002 Water System Improvement Bonds 5.25%	\$ 118,400	\$ -	\$ (14,900)	\$ 103,500
<u>Mortgage Revenue Bonds</u>				
Water Fund				
2004 USDA Rural Development Mortgage Revenue Bonds 4.375%	494,043	-	(6,573)	487,470
Sewer Fund				
1998 Sanitary Sewer System Mortgage Revenue Bonds Series A 4.50%	818,700	-	(16,100)	802,600
1998 Sanitary Sewer System Mortgage Revenue Bonds Series B 4.50%	135,900	-	(17,000)	118,900
Total Sewer Fund	954,600	-	(33,100)	921,500
Total Mortgage Revenue Bonds	1,448,643	-	(39,673)	1,408,970
<u>Other Long-Term Obligations</u>				
2004 OWDA Water Treatment and Wellfield Improvement Loan 1.50%	831,287	-	(27,632)	803,655
2010 OWDA Storm Sewer Replacement Loan 1.50%	118,862	5,163	(3,527)	120,498
2011 OWDA Storm Sewer Construction Loan 1.50%	-	38,485	-	38,485
Total Business-Type Activities	<u>\$ 2,517,192</u>	<u>\$ 43,648</u>	<u>\$ (85,732)</u>	<u>\$ 2,475,108</u>
<u>Governmental Activities</u>				
<u>Other Long-Term Obligation</u>				
2007 Fire Truck Loan 6.0%	\$ 140,000	\$ -	\$ (32,000)	\$ 108,000
2010 Facility Revenue Anticipation Notes 3.5%	20,000	-	(20,000)	-
2010 Ambulance Acquisition Notes 4.5%	77,589	-	(14,183)	63,406
Total Governmental Activities	<u>\$ 237,589</u>	<u>\$ -</u>	<u>\$ (66,183)</u>	<u>\$ 171,406</u>

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 7 - DEBT - (Continued)

Following are summaries of the Village's Business-Type Activities future annual debt service requirements:

Year Ending	Business-Type Activities					
	Water Operating Fund					
	General Obligation Bonds		Mortgage Revenue Bonds		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 16,500	\$ 4,181	\$ 7,161	\$ 21,027	\$ 31,867	\$ 13,274
2014	17,300	3,294	7,474	20,713	32,347	12,794
2015	18,200	2,362	7,801	20,386	32,834	12,307
2016	19,200	1,380	8,143	20,045	33,329	11,812
2017	16,700	438	8,499	19,689	33,830	11,311
2018 - 2022	-	-	48,407	92,531	176,948	48,757
2023 - 2027	-	-	59,965	80,973	190,676	35,029
2028 - 2032	-	-	74,280	66,658	205,469	20,236
2033 - 2037	-	-	92,015	48,923	140,509	5,200
2038 - 2042	-	-	113,984	26,954	15,371	397
2043 - 2044	-	-	52,880	3,495	-	-
Total	<u>\$ 87,900</u>	<u>\$ 11,655</u>	<u>\$ 480,609</u>	<u>\$ 421,394</u>	<u>\$ 893,180</u>	<u>\$ 171,117</u>

Year Ending	Business-Type Activities	
	Sewer Operating Fund	
	Mortgage Revenue Bonds	
	Principal	Interest
2013	\$ 36,100	\$ 39,911
2014	37,700	38,286
2015	39,500	36,589
2016	41,200	34,812
2017	43,100	32,958
2018 - 2022	120,300	144,738
2023 - 2027	149,800	115,137
2028 - 2032	186,700	78,255
2033 - 2037	232,500	32,310
Total	<u>\$ 886,900</u>	<u>\$ 552,996</u>

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 7 - DEBT - (Continued)

Following is the summary of the Village's Governmental Activities future annual debt service requirements:

Year Ending	Fire Truck Loan		Governmental Activities Ambulance Acquisition Bond		Fire Station Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 36,000	\$ 4,440	\$ 15,488	\$ 2,196	\$ 3,297	\$ 63
2014	38,000	2,280	16,185	1,541	280	1
2015	-	-	16,913	775	-	-
Total	<u>\$ 74,000</u>	<u>\$ 6,720</u>	<u>\$ 48,586</u>	<u>\$ 4,512</u>	<u>\$ 3,577</u>	<u>\$ 64</u>

On March 22, 2002, the Village issued \$217,000 in general obligation bonds for the purpose of retiring the Waterline Extension Bond Anticipation Notes and the Water System Bond Anticipation Notes. The 2002 Water System Improvement Bonds were issued for a 15 year period with final maturity on March 1, 2017. The bonds will be repaid from service fees collected in the Water Operating Fund.

The 2004 USDA Rural Development Mortgage Revenue Bonds were issued for \$523,000 for the purpose of paying the costs of constructing improvements to the Village's water system. The bonds will be repaid over 39 years with service fees collected in the Water Operating Fund.

The 1998 Sanitary Sewer System Mortgage Revenue Bonds Series A were issued for \$975,000. The bonds were obtained for the purpose of paying the costs of constructing improvements to the Village's sewer system. The bonds will be repaid over 40 years with service fees collected in the Sewer Operating Fund.

The 1998 Sanitary Sewer System Mortgage Revenue Bonds Series B was issued for \$300,000. The bonds were obtained for the purpose of paying the costs of constructing improvements to the Village's water system. The bonds will be repaid over 15 years with service fees collected in the Sewer Operating Fund.

The 2004 OWDA Water Treatment and Wellfield Improvement Loan were issued for \$963,420. The loan was obtained for the purpose of paying the costs of constructing improvements to the Village's water treatment plant and well field. A portion of this loan was used by OWDA to pay the 2002 OWDA Water Treatment Loan. The amount that OWDA applied to the 2002 loan was \$71,950. The loan will be repaid over 30 years from service fees collected in the Water Operating Fund.

The 2010 OWDA Storm Sewer Replacement Loan was issued for \$123,879. The loan was obtained for the purpose of paying costs of the replacement of storm sewers in the Village. The loan will be repaid over 30 years from service fees in the Water Operating Fund.

The 2011 OWDA Storm Sewer Construction Loan was issued for \$190,685. The loan was obtained for the purpose of paying costs of construction of storm sewers in the Village. The loan will be repaid over 30 years from service fees in the Water Operating Fund; however, an amortization schedule was not available yet at this time.

On March 1, 2007, the Village received a \$250,000 Fire Truck Loan, bearing interest at the rate of 6.0 percent per annum, payable semi-annually on June 1 and December 1 of each year, commencing on December 1, 2007. The loan was issued for the purpose of purchasing a new fire truck. The loan will be repaid over eight years with property tax receipts from the Fire Debt Service Fund.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 7 - DEBT - (Continued)

The 2010 Ambulance Acquisition Note was issued for \$77,589. The note was obtained to purchase an ambulance. The note will be repaid over 5 years from charges for services in the EMS special revenue fund.

In 2012, the Village issued a \$6,500 Fire Station bond for the purpose of repairing the roof of the fire station. The bond will be repaid over 2 years with property tax receipts from the Fire Levy special revenue fund.

In addition to the debt described above, the Village has defeased certain debt issues from prior years. Debt principal outstanding at December 31, 2012 was \$2,659,487. This disclosure does not include the related defeased debt or assets, since trustee assets should provide sufficient resources to retire the debt.

NOTE 8 - RETIREMENT SYSTEMS

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OP&F participants contributed 10% of their wage and the Village contributed an amount equal to 19.5% of full-time police members' wages. For 2012 and 2011, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

NOTE 9 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village is a member of the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entities Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

General, Automobile, Police Professional and Public Officials' Liability Coverage (Casualty Coverage) - PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$2,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$2,000,000 per year, subject to a per claim limit of \$2,000,000.

Property Coverage - PEP retains property risks, including automobile physical damage, up to \$250,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000, up to \$2,000,000 per occurrence. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 9 - RISK MANAGEMENT - (Continued)

The Village has elected to pay for coverage with the following limits:

Legal Liability - Third Party Claims Coverage (\$0 deductible) - per occurrence	\$ 2,000,000
Automobile Liability Coverage (\$0 deductible) - per occurrence	2,000,000
Wrongful Acts Coverage (\$5,000 deductible) - per occurrence	2,000,000
Lawful Enforcement Operations Coverage (\$2,500 deductible) - per occurrence	2,000,000
Property Coverage - Buildings and Contents - (\$0 deductible)	
Boiler & Machinery Coverage - Equipment Breakdown - (\$1,000 deductible)	
Additional Fire Department Coverage	500,000

NOTE 10 - CONTINGENT LIABILITIES

A. Litigation

The Village is currently not party to any legal proceedings.

B. Federal and State Grants

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

NOTE 11 - CHANGE IN ACCOUNTING PRINCIPLE/ACCOUNTING BASIS

For fiscal year 2011, the Village implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", which are described in Note 1.F.

The Village changed its accounting basis from GASB - cash basis to the cash (regulatory) basis of accounting. It had the following effect on fund balances at January 1, 2011:

Governmental Types:

	General	EMS Levy	Police Levy	Fire Debt Service	Other Governmental	Special Revenue	Debt Service	Capital Projects
December 31, 2010	\$ 655	\$ 62,919	\$ 8,907	\$ 53,437	\$ 43,500	\$ -	\$ -	\$ -
Reclass	-	(62,919)	(8,907)	(53,437)	(43,500)	114,428	53,437	898
January 1, 2011	\$ 655	\$ -	\$ -	\$ -	\$ -	\$ 114,428	\$ 53,437	\$ 898

Proprietary Types:

	Water Operating	Sewer Operating	Enterprise
December 31, 2010	\$ 130,584	\$ 76,181	\$ -
Reclass	(130,584)	(76,181)	206,765
January 1, 2011	\$ -	\$ -	\$ 206,765

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 12 - FISCAL EMERGENCY DETERMINATION

The Auditor of State of Ohio declared the Village of Manchester to be in a state of fiscal emergency on September 29, 1997, in accordance with Section 118.03 of the Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Village Mayor, the Village Council President, the Adams County Auditor, a local resident and three State of Ohio representatives.

NOTE 13 - SUBSEQUENT EVENT

On January 11, 2013, the Village entered in to a note for a police car with First State Bank in the amount of \$23,898 at an interest rate of 2.0%. Payments are annual until 2017 in varying amounts of principal and interest.

NOTED 14 - PRIOR PERIOD ADJUSTMENT

The Village is restating certain fund cash balances subsequent to the change in accounting basis as noted in Note 11.

The Village is restating its Storm Water Capital Projects Fund Type fund previously and Enterprise Fund Type fund balances and respective cash balances at January 1, 2011, as well as the General fund fund balance and cash balance. The prior period adjustment for the Storm Water Capital Projects Fund is due to the Enterprise Capital Projects Funds previously being recorded as Governmental Capital Projects Funds. Current year presentation includes these amounts in the Enterprise Fund Type fund balances and cash balances. The General fund prior period adjustment was made to properly state the fund balance and cash balance as of December 31, 2010. The prior period adjustment had the following effects on the Village's fund balance and cash balances:

	General fund Cash and Fund Balance	Capital Projects Cash and Fund Balance	Enterprise Cash and Fund Balance
Balance 12/31/10	\$ 655	\$ 898	\$ 206,765
Prior Period Adjustment	(27,072)	(898)	898
Restated Balances 01/01/11	<u>\$ (26,417)</u>	<u>\$ -</u>	<u>\$ 207,663</u>

NOTE 15 - COMPLIANCE & ACCOUNTABILITY

- i.* Contrary to Ohio law, Section 5705.41(B) and 5705.40, budgetary expenditures exceeded appropriation authority in certain funds for the years ended December 31, 2012 and 2011.
- ii.* Contrary to Ohio law, Section 5705.39 and 5705.36, certain funds had appropriations in excess of estimated resources for the year ended December 31, 2012.
- iii.* Contrary to Ohio Revised Code Section 118.12, 2012 and 2011 General Fund disbursements exceeded 85% of the respective prior year General Fund disbursements.
- iv.* Contrary to Ohio Revised Code Section 5705.10, the Village had negative fund balances at the years ended December 31, 2012 and 2011.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 15 - COMPLIANCE & ACCOUNTABILITY - (Continued)

- v. Contrary to Ohio Revised Code Section 5705.41(D), the Village had 24% of disbursements with an invoice dated after purchase order during the years ended December 31, 2012 and 2011.



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**Independent Auditor's Report on Internal Controls Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards***

Village of Manchester
Adams County
400 Pike Street
Manchester, Ohio 45144

To the Members of Council and Mayor:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards* the financial statements of the Village of Manchester, Adams County, Ohio, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated March 12, 2014, wherein we noted the Village of Manchester followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. In addition, as discussed in Note 11, the Village of Manchester adopted Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and the Village of Manchester changed its accounting basis from Governmental Accounting Standard No. 34 *Basic Financial Statements* - cash basis to the cash (regulatory) basis of accounting. As disclosed in Note 12, on September 29, 1997, the Village of Manchester was declared by the Auditor of State to be in a state of fiscal emergency. As disclosed in Note 14, the Village of Manchester has restated its General fund, Capital Projects, and Enterprise cash balances and fund balances.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village of Manchester's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village of Manchester's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

Members of Council and Mayor
Village of Manchester

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village of Manchester's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2012-VOM-001 and 2012-VOM-007 described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village of Manchester'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, opining 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 seven instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses as items 2012-VOM-002 through 2012-VOM-006 and 2012-VOM-008 and 2012-VOM-009.

Village of Manchester's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village of Manchester's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village of Manchester's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
March 12, 2014

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2012-VOM-001

Material Weakness - Financial Statement Presentation

Accurate financial reporting is required in order to provide management and the Council with objective and timely information to enable well-informed decisions.

The following audit adjustments were made to correct misstatements identified in the audit of the Village's financial statements:

For the Year Ended December 31, 2011:

- i. Decreased beginning fund balance in the General Fund by \$27,072. Also in the General Fund, property taxes were decreased by \$5,851 and intergovernmental receipts were decreased by \$7,421.
- ii. In the State Grant - Community Youth Fund, other financing sources were decreased by \$20,700 and debt principle and interest were increased by \$20,700.
- iii. In the State Grant - Sidewalk Grant, intergovernmental receipts and capital outlay were both increased by \$15,937.
- iv. Property taxes were decreased by \$2,910, intergovernmental receipts were decreased by \$156,087 and charges for services were increased by \$156,087 in the EMS Special Revenue Fund.
- v. In the Fire Levy Fund, property taxes were increased by \$2,585, intergovernmental receipts were increased by \$3,895, capital outlay was increased by \$4,000 and debt principle was decreased by \$4,000.
- vi. In the Police Levy Fund, property taxes were increased by \$1,252, intergovernmental receipts were increased by \$3,269, miscellaneous receipts were decreased by \$10,891 and other financing sources were increased by \$10,891.
- vii. Property taxes were decreased by \$1,509, intergovernmental receipts were increased by \$6,690 and general governmental disbursements were decreased by \$2,500 in the Fire Debt Service Fund.
- viii. The beginning fund balance of \$898 in the Storm Water Capital Projects fund was reclassified as an enterprise fund. In the Storm Water Capital Enterprise Fund, intergovernmental receipts were decreased by \$67,161, charges for services were increased by \$7,160, capital outlay disbursements were decreased by \$11,467, miscellaneous receipts were increased by \$5,917, proceeds of notes were increased by \$43,648 and interest and other fiscal charges were increased by \$1,031.
- ix. In the Water Debt Fund, debt principal disbursements were increased by \$23,591 and debt interest disbursements were decreased by \$21,091.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2012-VOM-001 - (Continued)

For the Year Ended December 31, 2012:

- i. In the General Fund, property taxes decreased by \$6,344, income taxes decreased by \$12,247, and intergovernmental receipts were decreased by \$850.
- ii. In the EMS Special Revenue Fund, intergovernmental receipts were decreased by \$71,772, charges for services were increased by \$71,772, security of persons and property disbursements were decreased by \$4,388, debt principal disbursements were increased by \$637 and debt interest disbursements were increased by \$3,751.
- iii. In the Fire Levy Fund, property taxes were increased by \$8,478, intergovernmental receipts were increased by \$3,364, security of persons and property disbursements were decreased by \$3,086, debt principal disbursements were increased by \$2,923, debt interest disbursements were increased by \$163, and proceeds of notes were increased by \$6,500.
- iv. In the Policy Levy Fund, property taxes were increased by \$8,478 and intergovernmental receipts were decreased by \$5,199.
- v. Property taxes were increased by \$4,845, and intergovernmental receipts were decreased by \$525 in the Fire Debt Service Fund.
- vi. In the Storm Water Capital Enterprise Fund, intergovernmental receipts were decreased by \$2,000, capital outlay disbursements increased by \$136,135, and proceeds of notes increased by \$152,200.
- vii. In the Water Operating Fund, employee fringe benefits were increased by \$8,284, supplies and materials were increased by \$1,632 and transfers out were decreased by \$9,916.
- viii. In the Sewer Operating Fund, employee fringe benefits were increased by \$4,985, and transfers out were decreased by \$4,985.
- ix. In the Water Debt Fund, debt principal and interest disbursements were increased by \$8,875 and \$5,190, respectively.

The Village's financial statements and cash fund balances in the Village's records have been adjusted to reflect these adjustments.

In general, an accounting and information system should be designed to provide management with accurate and timely information to enable well-informed business decisions to be made. The present system lacks fiscal oversight and approvals and fails to meet the above expectations.

We recommend the Village consult with their auditors, the Village Handbook, and the Auditor of State to help ensure accurate financial reporting.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2012-VOM-001 - (Continued)

Client Response: The Fiscal Officer will work to provide a sound fiscal environment for the Village and has implemented policies and procedures to help with financial statement presentation.

Finding Number	2012-VOM-002
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Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the disbursement of monies are to be made unless there is 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 Village had 24% of disbursements tested with an invoice that was dated prior to the purchase order during 2012 and 2011, respectively, thus causing those disbursements not to be certified in a timely manner.

Without proper certification the Village may expend more funds than available in the treasury or in the process of collection, or than funds appropriated. It may also result in unnecessary or undesirable purchases.

We recommend that all orders or contracts involving the disbursement of money be timely certified to ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. The Village should consider using “Then” and “Now” certificates where applicable.

Client Response: It is in the intent of the Village to improve compliance by more closely following as described in the finding to ensure prior certification for exceptions to ORC 5704.41 (D) and, when necessary, to have Council approved payments by resolution.

Finding Number	2012-VOM-003
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Ohio Revised Code Sections 5705.36, in part, requires Fiscal Officers to certify to the County Auditor the total amount from all sources which are available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.

During the year ended December 31, 2012, the Village’s appropriations exceeded its estimated resources.

The Village had appropriations exceeding its resources which could lead to spending monies not collected or expected to be collected, and thus could lead to a negative fund balance.

We recommend the Village first evaluate its certified estimated resources prior to modifying/approving appropriations to ensure appropriations are less than or equal to certified estimated resources.

Client Response: The Village will attempt to monitor its estimated revenues and appropriations more closely and will request amended certificates as needed.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2012-VOM-004

Ohio Revised Code Section 5705.39 in part requires that total appropriations from each fund should not exceed total estimated resources.

The Village had appropriations in excess of estimated resources at December 31, 2012 in the following funds:

	Estimated Resources	Appropriations	Excess
<u>December 31, 2012</u>			
<u>Special Revenue Fund:</u>			
State Grant - Community Youth Center	\$ (20,186)	\$ -	\$ 20,186
 <u>Enterprise Funds:</u>			
Water Operating	292,072	305,186	13,114
Water Debt	71,578	88,994	17,416

With appropriations exceeding estimated resources, the Village is appropriating monies that are not in the Treasury or in the process of collection that have been certified with the County Auditor. Thus, over appropriating may cause disbursements to increase and cause a deficit fund balance.

We recommend the Village comply with the Ohio Revised Code by monitoring appropriations so they do not exceed estimated resources. This may be achieved by monitoring the budget more closely on a continual basis and amending estimated resources or appropriations as necessary.

Client Response: The Fiscal Officer will attempt to update estimated revenues on a more timely basis.

Finding Number	2012-VOM-005
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Ohio Revised Code Section 5705.40 outlines the requirements for amending and supplementing appropriations. This section requires that any amendments to an appropriation measure be made by Council resolution and comply with the same provisions of the law as used in making the original appropriations.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2012-VOM-005 - (Continued)

Adjustments to the budget were made in the Village’s system without proper Council approval. Due to these unapproved and unallowable adjustments, disbursements exceeded appropriations in the Street Maintenance & Repair fund, the EMS Special Revenue fund, the Fire Levy fund, the Police Levy fund, the Water Operating fund, the Water Debt fund and the Storm Water Capital Enterprise fund in 2012. In 2011, disbursements exceeded appropriations in the Street Maintenance & Repair fund, the Parks and Recreation fund, the State Grant – Community Youth Center fund, the State Grant – Keramida fund, the State Grant – Sidewalk Grant, the EMS Special Revenue fund, the Fire Levy fund, the Police Levy fund, the Water Operating fund, the Sewer Operating fund, the Water Debt fund and the Storm Water Capital Enterprise fund.

By not timely and properly modifying the Village’s appropriations, the Village is not adequately monitoring appropriations versus disbursements. With disbursements exceeding appropriations, overspending may occur which may result in a negative fund balance.

We recommend that the Village comply with Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring disbursements so they do not exceed lawful appropriations. This may be achieved by monitoring the budget more closely on a continual basis and making appropriation amendments as necessary, subsequent to the passage of permanent appropriations.

Client Response: The Village is aware of the requirement for Council approval and is currently implementing policies and procedures to have all supplemental appropriations properly approved.

Finding Number	2012-VOM-006
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Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2012-VOM-006 - (Continued)

The Village had disbursements exceeding appropriations at December 31, 2012 and 2011 in the following funds:

	<u>Appropriations</u>	<u>Disbursements</u>	<u>Excess</u>
<u>December 31, 2012</u>			
<u>Special Revenue Funds:</u>			
Street Construction Maintenance & Repair	\$ 86,853	\$ 97,309	\$ 10,456
EMS Special Revenue	286,354	307,097	20,743
Fire Levy	57,830	75,582	17,752
Police Levy	175,464	193,733	18,269
 <u>Enterprise Funds:</u>			
Water Operating	321,569	352,546	30,977
Water Debt	88,994	102,900	13,906
Storm Water Capital	14,778	189,110	174,332
 <u>December 31, 2011</u>			
<u>Special Revenue Funds:</u>			
Street Construction Maintenance & Repair	79,757	93,129	13,372
Parks and Recreation	-	490	490
State Grant - Community Youth Center	-	20,700	20,700
State Grant - Keramida	-	14,811	14,811
State Grant - Sidewalk Grant	-	15,937	15,937
EMS Special Revenue	286,091	329,690	43,599
Fire Levy	54,630	57,405	2,775
Police Levy	154,984	167,687	12,703
 <u>Enterprise Funds:</u>			
Water Operating	340,376	356,709	16,333
Sewer Operating	329,714	349,172	19,458
Water Debt	89,094	94,560	5,466
Storm Water Capital	-	11,965	11,965

With disbursements exceeding appropriations, the Village is expending monies that have not been appropriated and approved by the Village Council. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2012-VOM-006 - (Continued)

We recommend that the Village comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring disbursements so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis and making appropriation amendments as necessary, subsequent to the passage of permanent appropriations.

Client Response: The Village is actively seeking to resolve this.

Finding Number	2012-VOM-007
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Material Weakness - Severance

The policy provided for severance payout was never formally adopted by Village Council. However, the Village's personnel policies and procedures indicates that sick leave can be accumulated up to a maximum of 960 hours for conversion upon retirement. (Section 7.8 Sick Leave). It also indicates that the employee be of service to the Village for a period of 10 continuous years prior to retirement, at which then they may redeem accumulated sick leave up to one-fourth of one-hundred-sixty hours. (Section 7.84 Cashing of Sick Leave). Further, it indicates such redemptions shall be at a rate of four (4) accumulated sick leave hours exchanged for one (1) hour of pay at the employees' last rate of regular pay prior to such retirement, up to a maximum conversion of one-fourth of nine-hundred-sixty hours, or a maximum total pay equivalent to 240 hours.

During 2012, the Village made three severance payments that appear to be paid out in excess of the policy. The excess amounts totaled \$143.50, \$36.28 and \$930.03 for the three individuals, respectively.

Paying severance in excess of a formal policy may result in the Village not being able to recover the excess payment. We recommend the Village adopt a formal severance payout policy and work with legal counsel on proper adoption and retention of policies. We also recommend the Village Council implement dual approvals and reviews of severance calculations prior to payouts.

Client Response: The Fiscal Officer was new to the Village when the payouts were due. There was confusion of understanding the complicated policy.

Finding Number	2012-VOM-008
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Ohio Revised Code Section 118.12 outlines the requirements if an entity fails to submit a financial plan, specially that if a plan is not submitted, then disbursements from the general fund may not exceed 85% of disbursements from the general fund for the preceding year, until the Commission has authorized a higher percent.

2011 General fund disbursements were 105% of prior year General fund disbursements and 2012 General fund disbursements were 102% of 2011 General fund disbursements; and there was no evidence provided that the Commission authorized a percent greater than the 85% listed in the statute.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2012-VOM-008 - (Continued)

Without abiding by the requirements, the Village risks remaining under fiscal emergency and not increasing their fiscal sustainability.

We recommend the Village contact the Commission members and actively pursue obtaining an approved financial plan and/or carefully monitor its disbursements to ensure they don't exceed the 85% limit, unless they have Commissions approval.

Client Response: The Village Council will contact the Commission members and the Ohio Auditor of State local region to discuss the adoption of an acceptable plan. The Village Council Fiscal Officer will attempt to monitor disbursements more closely to ensure they do not exceed the 85% requirement of the prior year unless approval is obtained from the Commission.

Finding Number	2012-VOM-009
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Ohio Revised Code Section 5705.10 in part requires that on a cash basis, no fund shall have a negative fund balance during the year or at year end.

At December 31, 2011, the Village had the following negative fund balances:

<u>Fund Type/Fund</u>	<u>Amount</u>
Special Revenue/State Grant	\$ 20,186
Enterprise/Water Operating	52,028
Enterprise/Water Debt Service	18,422

At December 31, 2012, the Village had the following negative fund balances:

<u>Fund Type/Fund</u>	<u>Amount</u>
Special Revenue/State Grant	\$ 20,186
Enterprise/Water Debt Service	38,561

By having a negative fund balance, this fund has spent other funds' balances. This could indicate insufficient monitoring of appropriations and related expenditures and continual review of cash management. No fund should have a negative cash fund balance throughout the year or at year end.

We recommend that the Village properly expend monies only after funds have been received and subsequent to proper appropriation. If funds are anticipated, but not yet received and expenditures are necessary, the Village should advance or transfer funds from the General Fund with proper Council approval. We recommend the Village utilize its accounting software program to its fullest and continually review relevant reports to assist in preventing negative fund balances.

Client Response: The Village in the future will advance monies from the General fund if necessary to cover temporary fund deficits.

**VILLAGE OF MANCHESTER
ADAMS COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; Finding no Longer Valid</u>
2010-001	<u>Material Noncompliance - Expenditure Certification</u> - 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 encumbrance.	No	Repeated as finding 2012-VOM-002
2010-002	<u>Material Noncompliance - Appropriations Exceed Available Resources</u> - Ohio Revised Code Section 5705.36 requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.	No	Repeated as finding 2012-VOM-003
2010-003	<u>Material Noncompliance - Appropriations in Excess of Estimated Resources</u> - Ohio Revised Code Section 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources.	No	Repeated as finding 2012-VOM-004
2010-004	<u>Material Noncompliance - Timely Deposits</u> - Ohio Revised Code Section 9.38 provides that public money must be deposited with the Treasurer of the public office or to the designated depository on the business day following the day of receipt.	Yes	N/A
2010-005	<u>Material Weakness - Adjustment Journal Entries</u> - The financial statements were adjusted to reflect correction of material misstatements.	No	Repeated as finding 2012-VOM-001



Dave Yost • Auditor of State

VILLAGE OF MANCHESTER

ADAMS 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 30, 2014**