



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**VILLAGE OF MANCHESTER
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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Manchester, Adams County, Ohio (the Village), as of and for the year ended December 31, 1998. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 1998, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

As described in Note 9 to the financial statements, the Village has been declared in a state of fiscal emergency under Ohio law.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2000 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 grants.

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

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Jim Petro
Auditor of State

July 14, 2000

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**VILLAGE OF MANCHESTER
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES -
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total (Memorandum Only)</u>
Cash receipts:					
Property tax and other local taxes	\$80,440	\$8,274	\$17,207	\$3,736	\$109,657
Intergovernmental receipts	53,202	262,727	1,756		317,685
Charges for services				8,731	8,731
Fines, licenses, and permits	36,182				36,182
Earnings on investments					0
Unclassified	<u>21,670</u>	<u>14,155</u>			<u>35,825</u>
Total cash receipts	<u>191,494</u>	<u>285,156</u>	<u>18,963</u>	<u>12,467</u>	<u>508,080</u>
Cash disbursements:					
Current:					
Security of persons and property		17,211			17,211
Community environment		10,883			10,883
Transportation		74,143			74,143
General government					0
Debt service:					
Principal payments	2,618	4,339	23,000	148,311	178,268
Interest payments	249	59	12,132	8,395	20,835
Capital outlay	0	138,373	0	0	138,373
Unclassified	<u>129,320</u>	<u>70</u>	<u>1,432</u>	<u>1,639</u>	<u>132,461</u>
Total disbursements	<u>132,187</u>	<u>245,078</u>	<u>36,564</u>	<u>158,345</u>	<u>572,174</u>
Total receipts over/(under) disbursements	<u>59,307</u>	<u>40,078</u>	<u>(17,601)</u>	<u>(145,878)</u>	<u>(64,094)</u>
Other financing receipts/(disbursements):					
Sale of bonds or notes	9,861			140,000	149,861
Transfers-in	9,376		12,000	15,942	37,318
Transfers-out	<u>(1,200)</u>	<u>(69,384)</u>			<u>(70,584)</u>
Total other financing receipts/(disbursements)	<u>18,037</u>	<u>(69,384)</u>	<u>12,000</u>	<u>155,942</u>	<u>116,595</u>
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	77,344	(29,306)	(5,601)	10,064	52,501
Fund cash balances January 1, 1998	<u>(104,835)</u>	<u>47,672</u>	<u>7,458</u>	<u>1,310</u>	<u>(48,395)</u>
Fund cash balances, December 31, 1998	<u>(\$27,491)</u>	<u>\$18,366</u>	<u>\$1,857</u>	<u>\$11,374</u>	<u>\$4,106</u>
Reserve for encumbrances, December 31, 1998	<u>\$1,749</u>	<u>\$817</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,566</u>

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

**VILLAGE OF MANCHESTER
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES
 IN FUND CASH BALANCES - PROPRIETARY FUND TYPE AND AGENCY FUND
 FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating cash receipts:			
Charges for services	\$366,691		\$366,691
Unclassified	<u>24,523</u>		<u>24,523</u>
Total operating cash receipts	<u>391,214</u>	<u>\$0</u>	<u>391,214</u>
Operating cash disbursements:			
Unclassified	<u>344,329</u>		<u>344,329</u>
Total operating cash disbursements	<u>344,329</u>	<u>0</u>	<u>344,329</u>
Operating income/(loss)	<u>46,885</u>	<u>0</u>	<u>46,885</u>
Non-operating cash receipts:			
Intergovernmental receipts	178,347		178,347
Proceeds from notes and bonds	1,275,000		1,275,000
Other non-operating receipts	<u>0</u>	<u>40,089</u>	<u>40,089</u>
Total non-operating cash receipts	<u>1,453,347</u>	<u>40,089</u>	<u>1,493,436</u>
Non-operating cash disbursements:			
Construction Project	155,824		155,824
Debt service	1,439,530	0	1,439,530
Other non-operating cash disbursements	<u>0</u>	<u>40,089</u>	<u>40,089</u>
Total non-operating cash disbursements	<u>1,595,354</u>	<u>40,089</u>	<u>1,635,443</u>
Excess of receipts over/(under) disbursements before interfund transfers and advances	(95,122)	0	(95,122)
Transfers-in	56,866		56,866
Transfers-out	<u>(23,600)</u>		<u>(23,600)</u>
Net receipts over/(under) disbursements	(61,856)	0	(61,856)
Fund cash balances, January 1, 1998	<u>190,938</u>	<u>0</u>	<u>190,938</u>
Fund cash balances, December 31, 1998	<u>\$129,082</u>	<u>\$0</u>	<u>\$129,082</u>
Reserve for encumbrances, December 31, 1998	<u>\$6,026</u>	<u>\$0</u>	<u>\$6,026</u>

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

**VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

The Village's management believes these financial statements present all activities for which the Village is financially accountable, except debt service funds maintained by outside custodians are not included in these financial statements. Assets held by custodians are described in Note 8 to the financial statements.

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. However, as noted in Note 11, the Village did not use the prescribed accounts to classify certain receipts and disbursements.

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. The repurchase agreement is valued at amounts reported by the financial institution.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. Fund Accounting

The Village uses fund accounting to segregate cash deposits 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.

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Highway Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing state highways within the Village.

3. Debt Service Funds

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant Debt Service Funds:

Water Debt Fund - This fund was set up as required by mortgage revenue bond covenant to receive required transfers from the Water Revenue Fund and to make principal and interest payments to the financial institution holding the debt.

Fire Debt Fund - This fund was set up to make debt service payments for loan used to buy fire equipment.

4. Capital Project Funds

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

Route 52 Waterline Fund - This fund received proceeds from notes and was used to construct a waterline to improve water service.

5. Enterprise Funds

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

Water Revenue Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Water Reserve and Improvement Fund - This fund receives transfers from the Water Revenue Fund as required by bond covenant and can only be used for major repairs or improvements or debt service requirements not met by the Water Debt Service Fund.

Sewer Revenue Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer URS Fund - This fund receives loan proceeds and grants to finance sewer system expansion. This loan will be repaid from utility charges.

6. Fiduciary Funds (Trust and Agency Funds)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant Agency Fund:

Mayor's Court Fund - This fund receives fines collected by Mayor's Court and distributed to the Village and to the State.

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

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 Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. The Village did not use the encumbrance method of accounting. However, a review of was performed to determine the amount of additional encumbrances outstanding at year end which were not recorded. These additional encumbrances were added to the financial statements.

A summary of 1998 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash pool used by all funds except Sewer Construction, certain Federal grants, and Mayor's Court. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash deposits at December 31 was as follows:

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

	<u>1998</u>
Demand Deposits	\$ 39,021
Certificates of Deposit	<u>60,089</u>
Total Deposits	99,110
Repurchase Agreement	<u>34,078</u>
Total Investments	<u>34,078</u>
Total Deposits and Investments	<u>\$133,188</u>

A. Deposits

Deposits are either insured by the Federal Depository Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

B. Investments

The Village invested in repurchase agreements which are backed by Federal Agency Mortgage backed securities. These repurchase agreements are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 1998 follows:

1998 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 287,991	\$ 210,731	\$ (77,260)
Special Revenue	111,691	285,156	173,465
Debt Service	12,051	30,963	18,912
Capital Projects	9,055	168,409	159,354
Enterprise	<u>94,982</u>	<u>1,901,427</u>	<u>1,806,445</u>
Total	<u>\$ 515,770</u>	<u>\$ 2,596,686</u>	<u>\$ 2,080,916</u>

1998 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 125,401	\$ 135,136	\$ (9,735)
Special Revenue	145,544	315,279	(169,735)
Debt Service	0	36,564	(36,564)
Capital Projects	0	158,345	(158,345)
Enterprise	<u>439,656</u>	<u>1,969,309</u>	<u>(1,529,653)</u>
Total	<u>\$ 710,601</u>	<u>\$ 2,614,633</u>	<u>\$ (1,904,032)</u>

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

3. BUDGETARY ACTIVITY (Continued)

Expenditures exceeded appropriations in all funds.

As of December 31, 1998, various funds had negative fund balances: General Fund (\$27,491), Law Enforcement DUI (\$1,127), Drug Law Enforcement (\$1,589), Linda Vista Debt Service (\$12,386), Street Capital Improvement (\$2,161), Community Building (\$578), and Sewer URS (\$1,949).

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

5. DEBT

Debt outstanding at December 31, 1998 was as follows:

	Principal	Interest Rate
General Obligation Bonds:		
Fire Equipment Bonds - 1990	\$ 40,000	5.00%
Street Capital Improvement Bonds - 1996	4,187	7.00%
Bond Anticipation Notes:		
Police Vehicle Acquisition Note - 1998	8,300	4.75%
Water System Bond Anticipation Note	140,000	5.65%
Emergency Village Capital Improvement Special Account (EVCISA) Water Loans	60,000	0.00%
Sanitary Sewer System Mortgage Revenue Bonds - Series 1998A and 1998B	1,255,671	4.50%
Water Mortgage Revenue Bond - 1978	150,689	5.00%
Total	\$ 1,658,847	

In 1998 the Village issued two mortgage revenue bonds. The Series 1998A Sanitary Sewer System Mortgage Revenue Bonds were issued in the principal amount of \$975,000, and the Series 1998B Sanitary Sewer System Mortgage Revenue Bonds were issued in the principal amount of \$300,000. The proceeds were issued to repay interim financing on an OWDA loan the Village had which related to a sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. These

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

5. DEBT (Continued)

bonds were purchased by the United States Department of Agriculture - Rural Development with an interest rate of 4.5%. The Series 1998A bonds were payable over forty years and the 1998B Series bonds were payable over twenty years.

The Sanitary Sewer System Mortgage Revenue Bonds relate to a sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency.

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

Year ending December 31:	General Obligation Bonds	General Obligation Notes	EVCISA LOANS	Mortgage Revenue Bonds
1999	\$ 26,731	\$ 151,470	\$ 5,000	\$ 88,605
2000	22,141	3,560	10,000	88,277
2001	0	1,694	10,000	88,114
2002	0	0	10,000	87,906
2003	0	0	10,000	88,652
Subsequent	<u>0</u>	<u>0</u>	<u>15,000</u>	<u>2,305,182</u>
Total	\$ <u>48,872</u>	\$ <u>156,724</u>	\$ <u>60,000</u>	\$ <u>2,746,736</u>

In addition to the debt described above, the Village has defeased certain debt issues from prior years. As described in Note 8, assets accumulated to retire this debt are held by a trustee.

6. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Police and Firemen's Disability and 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 1998, members of PFDPF contributed 10% of their wages to the PFDPF. The Village contributed an amount equal to 19.5% of their wages. PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 1998.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Public Officials Liability

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

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

8. DEBT SERVICE TRUSTEED FUNDS

As disclosed in Note 5, the Village has also defeased the 1968 "First Mortgage Sanitary Sewerage System Bond" issue. At December 31, 1998, all defeased bonds had been redeemed and the custodian held \$184,486 in excess Village assets. These assets are not included in the accompanying financial statements.

9. FISCAL EMERGENCY

The village was declared to be in a state of fiscal emergency on October 1, 1997, pursuant to Chapter 118, Ohio Revised Code, by the Auditor of State of Ohio. A Financial Planning Commission was appointed according to this Chapter. The Commission was organized on December 8, 1997. The Commission appointed a Financial Supervisor on April 21, 1998.

The Financial Supervisor is required to assist the Village in the following areas:

- a. Accounting system and financial management procedures to determine the cause of deficit fund balances;
- b. Year-end financial reports;
- c. Training/assistance in the cash journal, receipts journal, pay-in journal, warrants and appropriation ledger for all funds;
- d. Training/assistance in monthly reconciliation between the bank and the Villages's funds;
- e. Training/assistance with the encumbrance system for all funds;
- f. Analyze the adequacy of revenues to support expenditures; and,
- g. Assist in the preparation of the financial plan.

The Financial Planning Commission will cease to exist when the Auditor of State determines that the conditions that existed to cause the fiscal emergency no longer exist.

10. SUBSEQUENT EVENTS

On June 16, 1999, the Village entered into an agreement with the U.S. Department of Justice to repay questioned costs identified in previous audits. The Village agreed to make five payments of \$5,070 each for a total of \$25,350. Payments due on May 1, 1999, October 1, 1999 and May 1, 2000 have been made. Future payments will be due on October 1, 2000 and December 31, 2000. If any installment payment is received more than ten days after due, the entire amount of debt will become immediately due and payable at the option of the Office of Comptroller, Office of Justice Programs.

On May 5, 2000, the Village repaid \$25,039 to the Federal Emergency Management Agency (FEMA) for expenditures that were disallowed under the terms of the grant agreement.

In April 2000 the Village was granted approval for Federal Emergency Management Agency Mitigation funding related to the March 1997 flood in the Village. This grant is estimated to be \$1,086,000.

11. COMPLIANCE

Certain receipts and disbursements presented in this report are unclassified. This presentation is a material departure from the presentation prescribed by the auditor of State in Sections 117-5-01 through 117-5-18 of the Ohio Administrative Code. Those sections of the Ohio Administrative Code require classifying receipts by source and disbursements by program.

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998
(Continued)

12. CONTINGENT LIABILITIES

The Village is the defendant in a lawsuit involving the storage of police vehicles. The matter is set for trial on October 26 and October 27, 2000. Management anticipates a verdict favorable to the Village if the matter proceeds to trial. Based on depositions that have been taken in this matter and the pleadings, the loss to the Village could be in the range of \$6,000 to \$18,000. Although the outcome of this suit is not presently determinable, management believes that the resolution of this matter will not materially adversely affect the Village's financial condition.



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

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Manchester, Adams County, Ohio (the Village), as of and for the year ended December 31, 1998, and have issued our report thereon dated July 14, 2000, in which we described in Note 9 to the financial statements, the Village has been declared in a state of fiscal emergency under Ohio law. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as Items 1998-30401-001 through 1998-30401-006. We also noted immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated July 14, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the accompanying schedule of findings as items 1998-30401-007 to 1998-30401-010.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. We believe 1998-30401-007, 1998-30401-008 and 1998-30401-009 of the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated July 14, 2000.

Village of Manchester
Adams County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
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This report is intended for the information and use of management and Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

July 14, 2000

**VILLAGE OF MANCHESTER
SCHEDULE OF FINDINGS
DECEMBER 31, 1998**

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

FINDING NUMBER 1998-30401-001

Noncompliance Citation

Ohio Rev. Code, Section 5705.10, provides that monies paid into any fund shall be used only for the purpose for which such fund is established. The General Fund \$(27,491); Law Enforcement DUI (\$1,127); Drug Law Enforcement (\$1,589); Linda Vista Fund \$(12,386); Street Capital Improvement Fund \$(2,161); Community Building (\$576); and Sewer URS (\$1,949); had negative fund balances at December 31, 1998. The deficit balances indicate that cash from other funds have been used to pay the obligations of these funds. The deficit General Fund balance placed the Village in fiscal emergency. The Village must take the necessary actions to eliminate the deficit fund balances.

FINDING NUMBER 1998-30401-002

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. Expenditures exceeded appropriations in the following funds:

FUND	APPROPRIATIONS	EXCESS OF EXPENDITURES OVER APPROPRIATIONS
General	125,401	9,735
Street Construction, Maintenance		
State Highway	0	7,655
Fire Levy	10,280	2,123
Law Enforcement DUI	0	1,741
Drug Law Enforcement	800	4,937
Police Levy	0	394
Cops Fast	0	24
FEMA 1997	0	64,325
Computer	0	71
Fire Debt Service	0	20,143
Water Debt Service	0	11,734
Linda Vista	0	4,687
Route 52 Water	0	154,594
Street Capital Improvement	0	3,751
Boat Dock	0	23
Community Building	0	10,623
Water Repair and Improvement	0	10,000
Sewer Operating	253,464	32,831
Sewer URS	0	1,504,000

**VILLAGE OF MANCHESTER
SCHEDULE OF FINDINGS
DECEMBER 31, 1998
(Continued)**

FINDING NUMBER 1998-30401-003

Noncompliance Citation

Ohio Rev. Code, Section 5705.39, requires total appropriations from each fund not to exceed total estimated resources. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the official estimate or the amended official estimate. This certificate was not issued by the County Auditor for the Village's permanent appropriation measure, and furthermore, appropriations exceeded total estimated resources.

FINDING NUMBER 1998-30401-004

Noncompliance Citation

Ohio Administrative Code, Sections 117-5-01 through 117-5-18, require the classification of receipts by source and disbursements by program. The Village records presented for audit did not classify transactions as required. The classifications reflected in the accompanying financial statements were a result of audit classifications. Failure to keep the required records and balance them monthly resulted in the records being declared unauditible, deficit cash fund balances, and increased audit costs and fees for accounting services. The Village must keep the required records and follow required procedures in order to control spending and to eliminate deficit cash fund balances.

FINDING NUMBER 1998-30401-005

Noncompliance Citation

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

This Section also provides for two exceptions to the above requirements:

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

The Village's appropriation ledgers did not indicate any posted encumbrances or appropriation balances so it was impossible for the Clerk/Treasurer to accurately certify expenditures. Failure to encumber allowed the Village to over spend fund balances as noted in finding number 1998-30401-001.

**VILLAGE OF MANCHESTER
SCHEDULE OF FINDINGS
DECEMBER 31, 1998
(Continued)**

FINDING NUMBER 1998-30401-006

Bond Covenant Noncompliance Citation

Manchester Village Ordinance 1998-2 authorizing the issuance of Sanitary Sewer System Mortgage Revenue Bonds, Series 1998A and 1998B, requires the establishment of a sinking fund for the payment of principal and interest on the bonds and a reserve fund with separate accounts for each series for paying the cost of repairing or replacing any unforeseen catastrophic damage to the System or for making principal and interest payments if the amount in the Sinking Fund is not sufficient to meet such payments. The Village did not establish the Sinking Fund or the Reserve Fund as required. These funds need to be established in order to comply with the debt covenant.

FINDING NUMBER 1998-30401-007

Material Weakness

The Village did not reconcile bank balances with total cash fund balance on a monthly basis. Failure to reconcile monthly resulted in the Village's overspending fund cash balances as noted in finding number 1998-30401-001. Also, the Village did not reconcile individual fund cash balances with total cash fund balance on a monthly basis. To adequately monitor the Village's fund cash position on a timely basis, the Village must reconcile cash fund balances and bank balances on a monthly basis.

FINDING NUMBER 1998-30401-008

Material Weakness

The Village generally prepares paychecks prior to the end of the pay period being paid. These paychecks are often distributed prior to the check date and they clear the bank prior to the end of the pay period. This is paying for services in advance of them being performed. Absences on the last day of the pay period must be adjusted in the following pay period.

If an employee would not complete his work week and leave employment of the Village, this could result in a possible loss to the Village. Under no circumstance should a paycheck be released prior to completion of work being paid. To allow for reasonable and accurate processing of payroll, we recommend pay checks not be released until the date of the check and at least a week delay between the end of a pay period and the release of the pay checks.

FINDING NUMBER 1998-30401-009

Material Weakness

Our audit disclosed that the Village does not follow mandatory budgetary procedures required by Ohio law. Failure to follow these procedures resulted in deficit cash fund balances, overspending, and contributed to placing the Village in a state of fiscal emergency. The Village must follow mandatory budgetary procedures in order to control spending and to eliminate deficit cash fund balances.

**VILLAGE OF MANCHESTER
SCHEDULE OF FINDINGS
DECEMBER 31, 1998
(Continued)**

FINDING NUMBER 1998-30401-010

Segregation of Duties

The Clerk/Treasurer handles all financial record-keeping, including receipting and posting. The weakness of this system is that it allows for diversion of funds through possible alteration of source documents. Also, bookkeeping errors may occur without detection in a timely manner.

To enhance accountability and to strengthen internal accounting controls, officials should periodically review the records, (i.e. reconciliations, etc.) to determine accuracy and to verify that proper procedures were followed by the fiscal officer. These periodic reviews should be noted in the minutes, and documents reviewed should be initialed by the reviewer.

**VILLAGE OF MANCHESTER
SCHEDULE OF PRIOR AUDIT QUESTIONED COSTS
DECEMBER 31, 1998**

SCHEDULE OF PRIOR AUDIT QUESTIONED COSTS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
1997-30401-012	A review of expenditures charged to the Federal Emergency Management Agency (FEMA) Fund disclosed \$55,874 of questioned costs	Yes - On 5/5/00 the Village refunded FEMA \$25,039 related questioned cost. The matter was resolved. No further amount due.	N/A



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OFFICE OF THE AUDITOR

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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
AUGUST 31, 2000**