



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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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, 1997. 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 of the Village as of December 31, 1997, 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 10 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 December 16, 1999, 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.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Village, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management and 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.

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

December 16, 1999

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES-
FOR THE YEAR ENDED DECEMBER 31, 1997**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash receipts:					
Property tax and other local taxes	\$72,431	\$56,717	\$17,330	\$3,735	\$150,213
Intergovernmental receipts	66,226	287,144	1,756	0	355,126
Charges for services	0	0	0	8,461	8,461
Fines, licenses, and permits	19,575	2,389	0	0	21,964
Earnings on investments	0	0	0	0	0
Unclassified	<u>29,546</u>	<u>8,055</u>	<u>0</u>	<u>0</u>	<u>37,601</u>
Total cash receipts	<u>187,778</u>	<u>354,305</u>	<u>19,086</u>	<u>12,196</u>	<u>573,365</u>
Cash disbursements:					
Current:					
Security of persons and property	0	95,750	0	0	95,750
Transportation	0	55,726	0	0	55,726
Debt service:					
Principal payments	1,693	1,862	22,000	148,088	173,643
Interest payments	245	294	13,860	3,030	17,429
Unclassified	<u>211,346</u>	<u>233,955</u>	<u>710</u>	<u>1,060</u>	<u>447,071</u>
Total disbursements	<u>213,284</u>	<u>387,587</u>	<u>36,570</u>	<u>152,178</u>	<u>789,619</u>
Total receipts over/(under) disbursements	<u>(25,506)</u>	<u>(33,282)</u>	<u>(17,484)</u>	<u>(139,982)</u>	<u>(216,254)</u>
Other financing receipts/(disbursements):					
Sale of bonds or notes	0	0	0	145,000	145,000
Transfers-in	23,847	23	20,000	0	43,870
Transfers-out	<u>(1,200)</u>	<u>(23,870)</u>	<u>0</u>	<u>0</u>	<u>(25,070)</u>
Total other financing receipts/(disbursements)	<u>22,647</u>	<u>(23,847)</u>	<u>20,000</u>	<u>145,000</u>	<u>163,800</u>
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	(2,859)	(57,129)	2,516	5,018	(52,454)
Fund cash balances, January 1, 1997	<u>(101,976)</u>	<u>104,801</u>	<u>4,942</u>	<u>(3,708)</u>	<u>4,059</u>
Fund cash balances, December 31, 1997	<u>(\$104,835)</u>	<u>\$47,672</u>	<u>\$7,458</u>	<u>\$1,310</u>	<u>(\$48,395)</u>

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

**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, 1997**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating cash receipts:			
Charges for services	\$281,852	\$0	\$281,852
Unclassified	6,379	0	6,379
Total operating cash receipts	<u>288,231</u>	<u>0</u>	<u>288,231</u>
Operating cash disbursements:			
Unclassified	<u>320,806</u>	<u>0</u>	<u>320,806</u>
Total operating cash disbursements	<u>320,806</u>	<u>0</u>	<u>320,806</u>
Operating income/(loss)	<u>(32,575)</u>	<u>0</u>	<u>(32,575)</u>
Non-operating cash receipts:			
Intergovernmental receipts	451,183	0	451,183
Other non-operating receipts	0	26,147	26,147
Total non-operating cash receipts	<u>451,183</u>	<u>26,147</u>	<u>477,330</u>
Non-operating cash disbursements:			
Construction Project	531,433	0	531,433
Debt service	5,000	0	5,000
Other non-operating cash disbursements	0	26,147	26,147
Total non-operating cash disbursements	<u>536,433</u>	<u>26,147</u>	<u>562,580</u>
Excess of receipts over/(under) disbursements before interfund transfers and advances	(117,825)	0	(117,825)
Transfers-in	9,000	0	9,000
Transfers-out	(27,800)	0	(27,800)
Net receipts over/(under) disbursements	(136,625)	0	(136,625)
Fund cash balances, January 1, 1997	<u>327,563</u>	<u>0</u>	<u>327,563</u>
Fund cash balances, December 31, 1997	<u>\$190,938</u>	<u>\$0</u>	<u>\$190,938</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1997**

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 13, 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 Deposits

Certificates of deposit are valued at cost.

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 Fund

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.

FEMA Fund - This fund receives federal grant funds used to repair damages caused by the March 1997 flood.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1997
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Debt Service Fund

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 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 Fund (Agency Fund)

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.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1997
(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.

A summary of 1997 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. POOLED CASH DEPOSITS

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:

	<u>1997</u>
Demand deposits	\$ 84,612
Certificates of deposit	<u>57,931</u>
Total deposits	<u><u>142,543</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1997
(Continued)

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 1997 follows:

1997 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 208,423	\$ 211,625	\$ 3,202
Special Revenue	151,745	354,328	202,583
Debt Service	52,017	39,086	(12,931)
Capital Projects	1,001,508	157,196	(844,312)
Enterprise	3,178,983	748,414	(2,430,569)
Total	<u>\$ 4,592,676</u>	<u>\$ 1,510,649</u>	<u>\$ (3,082,027)</u>

1997 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 144,859	\$ 214,484	\$ (69,625)
Special Revenue	149,468	411,457	(261,989)
Debt Service	0	36,570	(36,570)
Capital Projects	150,000	152,178	(2,178)
Enterprise	639,422	885,039	(245,617)
Total	<u>\$ 1,083,749</u>	<u>\$ 1,699,728</u>	<u>\$ (615,979)</u>

Expenditures exceeded appropriations in all fund types due to failure to adopt a permanent appropriation resolution.

As of December 31, 1997, various funds had negative fund balances: General Fund (\$104,836), Linda Vista Debt Service (\$11,039), Street Capital Improvement (\$18,087).

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.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1997
(Continued)

5. DEBT

Debt outstanding at December 31, 1997 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$ 1,275,000	4.50%
General Obligation Bonds:		
Fire Equipment Bonds - 1990	55,000	5%
Street Capital Improvement Bonds - 1996	7,498	7.00%
Bond Anticipation Notes:		
Police Vehicle Bond Anticipation Acquisition Note	2,104	6.50%
Police Vehicle Acquisition Note	3,487	6.80%
Water System Bond Anticipation Note	145,000	5.50%
Emergency Village Capital Improvement Special Account (EVCISA) Water Loans	75,000	0.00%
Linda Vista Special Assessment Bonds - 1988	4,000	7.00%
Water Mortgage Revenue Bond - 1978	154,689	5.00%
Total	\$ 1,721,778	

The Ohio Water Development Authority (OWDA) loan relates to a sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA loan is a short term construction loan which will be refinanced when the project is completed in 1998.

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

Year ending December 31:	OWDA Loan	General Obligation Bonds	General Obligation Notes	EVCISA LOANS	Special Assessment Bond	Mortgage Revenue Bonds
1998	\$1,332,375	\$ 22,849	\$ 157,305	\$ 10,000	\$ 4,280	\$ 11,800
1999	0	26,731	1,822	10,000	0	12,600
2000	0	22,141	0	10,000	0	12,350
2001	0	0	0	10,000	0	12,100
2002	0	0	0	10,000	0	11,850
Subsequent	0	0	0	25,000	0	194,900
Total	\$1,332,375	\$ 71,721	\$ 159,127	\$ 75,000	\$ 4,280	\$ 255,600

In addition to the debt described above, in prior years, the Village defeased the 1968 "First Mortgage Sanitary Sewerage System Bond" issue. Debt principal outstanding at December 31, 1997, for this issue was \$20,000. 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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1997
(Continued)

6. RETIREMENT SYSTEMS (Continued)

(PERS) of Ohio. PFDPF and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 1997, 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, 1997.

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.

8. DEBT SERVICE TRUSTEED FUNDS

As disclosed in Note 5, the Village has defeased the 1968 "First Mortgage Sanitary Sewerage System Bond" issue. At December 31, 1997, the custodian held \$197,727 in Village assets to retire this bond issue. These assets are not included in the accompanying financial statements.

9. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Grant amounts which have been questioned by the Federal Emergency Management Agency are \$55,874.

10. 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.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1997
(Continued)

10. FISCAL EMERGENCY (Continued)

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.

11. SUBSEQUENT EVENTS

On March 16, 1998, the Village received a loan from the U. S. Department of Agriculture, Rural Development Department, for \$1,275,000, with interest rate of 4.5%, to refund Ohio Water Development Authority Loan of the same amount.

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 May 1, 1999, and October 1, 1999, have been made. Future payments will be due on May 1, 2000, 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.

12. YEAR 2000 ISSUE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Village's operations as early as fiscal year 1999.

The Village has completed an inventory of mission-critical computer and other equipment necessary to conducting Village operations and has identified such systems as being their utility billing system. The Village's vendor, Donald R. Frey & Company, Inc., has informed the Village that the utility billing software has been tested and validated.

The State of Ohio distributes money to the Village in the form of homestead and rollback taxes, auto license, gasoline taxes, and various grants, while Adams County collects property taxes, other taxes, and Local Government payments for distribution to the Village. The State and County, respectively, are responsible for remediating these systems. The Village utilizes the Adams County 911 system for emergency dispatching. The County is responsible for remediating this system.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the Village is or will be Year 2000 ready, that the Village's remediation efforts will be successful in whole or in part, or that parties with whom the Village does business will be Year 2000 ready.

13. 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.

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**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
DECEMBER 31, 1997**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development:</i>			
Community Development Block Grant	C-W-94-221-1	14.228	<u>\$78,498</u>
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Rural Economic Community Development:</i>			
Water and Waste Disposal Systems for Rural Communities	RECDSLAP-1	10.760	<u>427,161</u>
U.S. DEPARTMENT OF JUSTICE			
<i>Direct from the Federal Government</i>			
Public Safety Partnership and Community Policing Grants	96-CM-WX-0917 95-CF-WX-1498	16.710	<u>22,673</u>
APPALACHIAN REGIONAL COMMISSION			
Appalachian Supplements to Federal Grant- in-Aid Area	OH-11690-94-I-214-0627	23.002	<u>26,873</u>
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY			
<i>Passed Through the Ohio Emergency Management Agency:</i>			
Public Assistance Grants	DR-1164-OH	83.544	<u>209,407</u>
Total Federal Financial Assistance			<u><u>\$764,612</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
DECEMBER 31, 1997**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Government's federal award programs. The schedule has been prepared on the cash basis of accounting.



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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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, 1997, and have issued our report thereon dated December 16, 1999. As described in Note 10 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 1997-30401-001 through 1997-30401-008. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated December 16, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 1997-30401-009 through 1997-30401-11.

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 the reportable conditions described

Village of Manchester
Adams County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
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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 December 16, 1999.

This report is intended for the information and use of management, Village Council, and federal awarding agencies and pass-through entities, 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", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

December 16, 1999



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the Village Council:

Compliance

We have audited the compliance of the Village of Manchester, Adams County, Ohio (the Village), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 1997. The Village's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned cost. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Village's management. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

As described in item 1997-30401-012 in the accompanying schedule of findings and questioned cost, the Village did not comply with requirements regarding allowability that are applicable to its Federal Emergency Management Agency program. Compliance with such requirements is necessary, in our opinion, for the Village to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Village complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1997.

Internal Control Over Compliance

The management of the Village is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In

planning and performing our audit, we considered the Village's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Village's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned cost as item 1997-30401-12.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended for the information and use of management, Village Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Jim Petro
Auditor of State

December 16, 1999

**SCHEDULE OF FINDINGS AND QUESTIONED COST
OMB CIRCULAR A -133 § .505
DECEMBER 31, 1997**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)---- ---	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	FEMA-CFDA #83.544; Water and Waste Disposal Systems for Rural Communities - CFDA #10.760
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 1997-30401-001

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 \$(104,835); Linda Vista Fund \$(11,039); and Street Capital Improvement Fund \$(18,087) had negative fund balances at December 31, 1997. 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.

SCHEDULE OF FINDINGS AND QUESTIONED COST
OMB CIRCULAR A -133 § .505
DECEMBER 31, 1997
(Continued)

FINDING NUMBER 1997-30401-002

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	144,859	69,625
Street Construction, Maintenance and Repair	28,768	24,978
Fire Levy	25,000	3,451
Law Enforcement DUI	0	5,225
Drug Law Enforcement	0	1,601
Law Education	0	1,392
Police Levy	20,800	12,649
Cops Fast	23,438	12,649
Cops More	14,300	1,673
FEMA	9,377	200,029
Fire Debt Service	0	20,745
Water Debt Service	0	11,935
Linda Vista	0	3,890
Street Capital Improvement	0	3,831
Water Operating	31,861	160,845
Water Improvement	0	3,469
Sewer Improvement	0	1,084
Sewer Operating	75,561	72,791
Sewer URS	500,000	31,433

SCHEDULE OF FINDINGS AND QUESTIONED COST
OMB CIRCULAR A -133 § .505
DECEMBER 31, 1997
(Continued)

FINDING NUMBER 1997-30401-003

Noncompliance Citation

Ohio Rev. Code, Section 5705.36, requires that the village file with the County Auditor on or about the first day of each fiscal year a certificate showing the total amount from all sources which is available for expenditures and the balances existing at the end of the preceding year. The Village did not file this certificate. Failure to provide this certificate prevented the County Budget Commission from returning an amended certificate of estimated resources to the Village. The Village must receive the amended certificate in order to adopt a meaningful annual appropriation.

FINDING NUMBER 1997-30401-004

Noncompliance Citation

Ohio Rev. Code, Section 5705.39, requires total appropriations from each fund not to exceed total estimated revenue. 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. The certificate filed by the County Auditor stated that temporary appropriations exceeded the official estimated resources and the Village failed to certify year end balances to receive an amended official certificate or to adopt a permanent appropriation that was within the official certificate of estimated resources.

FINDING NUMBER 1997-30401-005

Noncompliance Citation

Ohio Rev. Code, Section 5705.38, requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. On January 6, 1997, the Village adopted a Temporary Appropriation Measure which authorized expenditures until March 31, 1997. The Village failed to adopt a Permanent Appropriation Resolution.

FINDING NUMBER 1997-30401-006

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 reconstructed 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 1997-30401-007

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

SCHEDULE OF FINDINGS AND QUESTIONED COST
OMB CIRCULAR A -133 § .505
DECEMBER 31, 1997
(Continued)

FINDING NUMBER 1997-30401-007 (Continued)

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 overspend fund balances as noted in finding number 1997-30401-001.

FINDING NUMBER 1997-30401-008

Noncompliance Citation

Ohio Rev. Code, Section 2921.42, provides that no public official shall knowingly authorize or employ the authority or influence of his office to secure authorization of any public contract in which he, a member of his family, or any of his business associates has an interest. Ohio Rev. Code Section 735.31 specifically requires that the Street Commissioner be appointed by the Mayor. The Mayor appointed his brother as Street Commissioner.

FINDING NUMBER 1997-30401-009

Material Weakness

The Village did not reconcile bank balances either with total cash fund balance or with individual fund cash balances on a monthly basis. Failure to reconcile monthly could and did result in accounting errors going undetected and contributed to the Village's overspending fund cash balances as noted in finding number 1997-30401-001. 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.

SCHEDULE OF FINDINGS AND QUESTIONED COST
OMB CIRCULAR A -133 § .505
DECEMBER 31, 1997
(Continued)

FINDING NUMBER 1997-30401-010

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.

FINDING NUMBER 1997-30401-011

Material Weakness

The Village normally prepares paychecks prior to the end of the pay period being paid. These paychecks are often distributed so that they clear the bank prior to the end of the pay period. This is paying for services that have not been performed and might never be performed. Absences on the last day of the pay period must be adjusted in the following pay period. 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 at least a week delay between the end of a pay period and the release of the pay checks.

3. FINDINGS AND QUESTIONED COST FOR FEDERAL AWARDS

FINDING NUMBER 1997-30401-012

CFDA Title and Number	Disaster Assistance 83.544
Federal Award Number / Year	DR-1164-OH / 1997
Federal Agency	Federal Emergency Management Agency
Pass-Through Agency	Ohio Emergency Management Agency

Questioned Cost of \$55,874/ Material Weakness

A review of expenditures charged to the Federal Emergency Management Agency (FEMA) Fund disclosed \$55,874 of expenditures that were not allowable under any Damage Survey Report (DSR) as approved by the Ohio Emergency Management Agency (OEMA). Thus we are questioning the allowability of such costs under 44 CFR .20/.21.

Under the terms of the grant agreement, an Authorized Agent is to be appointed to conduct business with OEMA to assure all expenditures are allowable under the approved DSR's and that quarterly progress reports are filed timely and accurately.

There was no documentation that the Authorized Agent approved the allowability of invoices and also no documentation to indicate which DSR the expenditure should have been charged against. An on-site review by the OEMA indicated that two completed DSR projects were not reported on the quarterly progress reports.

These weaknesses resulted in not only the questioned costs but also the inaccurate filing of quarterly progress reports with the OEMA.

We recommend, for current and future FEMA projects, that the Village's Authorized Agent become more involved in the approval of grant disbursements and allocating such to the proper project. Also, the Agent and Village management should ensure that the quarterly progress reports are promptly and accurately filed with OEMA.



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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
JANUARY 11, 2000**