



**Auditor of State
Betty Montgomery**

MECHANIC TOWNSHIP
HOLMES COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of Mechanic Township, Holmes County, Ohio, (the Township) as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 provide a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than 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 Township as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2003 on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 20, 2003

**MECHANIC TOWNSHIP
HOLMES COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$36,382	\$73,946	\$110,328
Intergovernmental	26,833	75,140	101,973
Earnings on Investments	2,321	299	2,620
Miscellaneous		12,714	12,714
	<u>65,536</u>	<u>162,099</u>	<u>227,635</u>
Total Cash Receipts			
	<u>65,536</u>	<u>162,099</u>	<u>227,635</u>
Cash Disbursements:			
Current:			
General Government	53,784		53,784
Public Works	36,124	151,022	187,146
Health	809		809
	<u>90,717</u>	<u>151,022</u>	<u>241,739</u>
Total Cash Disbursements			
	<u>90,717</u>	<u>151,022</u>	<u>241,739</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(25,181)</u>	<u>11,077</u>	<u>(14,104)</u>
Other Financing Receipts:			
Other Financing Sources	5,918		5,918
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(19,263)	11,077	(8,186)
Fund Cash Balances, January 1	<u>210,193</u>	<u>63,781</u>	<u>273,974</u>
Fund Cash Balances, December 31	<u>\$190,930</u>	<u>\$74,858</u>	<u>\$265,788</u>

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

**MECHANIC TOWNSHIP
HOLMES COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$33,471	\$59,708	\$93,179
Intergovernmental	142,639	71,576	214,215
Earnings on Investments	3,490	867	4,357
Miscellaneous		7,010	7,010
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	179,600	139,161	318,761
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
General Government	56,576		56,576
Public Works	12,546	181,254	193,800
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	69,122	181,254	250,376
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	110,478	(42,093)	68,385
	<hr/>	<hr/>	<hr/>
Other Financing Receipts/(Disbursements):			
Advances-In	7,000	7,000	14,000
Advances-Out	(7,000)	(7,000)	(14,000)
Other Financing Sources	3,873		3,873
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	3,873		3,873
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	114,351	(42,093)	72,258
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	95,842	105,874	201,716
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$210,193</u>	<u>\$63,781</u>	<u>\$273,974</u>

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

**MECHANIC TOWNSHIP
HOLMES COUNTY**

**STATEMENTS OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - NONEXPENDABLE TRUST FUND
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
Operating Cash Receipts:		
Interest	\$55	\$122
Operating Cash Disbursements:		
Purchased and Contracted Services	109	0
Operating Income/(Loss)	<u>(54)</u>	<u>122</u>
Fund Cash Balances, January 1	<u>2,379</u>	<u>2,257</u>
Fund Cash Balances, December 31	<u><u>\$2,325</u></u>	<u><u>\$2,379</u></u>

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

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**MECHANIC TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Mechanic Township, Holmes County, (the Township) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected, three-member Board of Trustees. The Township provides general governmental services, road and ditch maintenance, and cemetery maintenance.

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

B. Basis of Accounting

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

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

C. Cash

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

Certificates of deposit are valued at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

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

**MECHANIC TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

3. Fiduciary Fund (Trust Fund)

This fund is used to account for resources restricted by legally binding trust agreements and funds for which the Township is acting in an agency capacity. The Township has the following significant fiduciary fund:

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve the appropriation measure 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 Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

**MECHANIC TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused vacation. Unpaid vacation is not reflected as a liability under the Township's basis of accounting. Employees are not entitled to cash payments for unused sick, personal, or bereavement days.

2. EQUITY IN POOLED CASH

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

	2002	2001
Demand deposits	\$266,113	\$274,353
Certificates of deposit	2,000	2,000
Total deposits	\$268,113	\$276,353

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by securities specifically pledged by the financial institution to the Township.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$68,429	\$71,454	\$3,025
Special Revenue	162,102	162,099	(3)
Nonexpendable Trust	124	55	(69)
Total	\$230,655	\$233,608	\$2,953

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$137,600	\$90,717	\$46,883
Special Revenue	160,875	151,022	9,853
Nonexpendable Trust	400	109	291
Total	\$298,875	\$241,848	\$57,027

**MECHANIC TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$63,588	\$183,473	\$119,885
Special Revenue	149,136	139,161	(9,975)
Nonexpendable Trust	120	122	2
Total	\$212,844	\$322,756	\$109,912

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$139,600	\$69,122	\$70,478
Special Revenue	235,200	181,254	53,946
Nonexpendable Trust	200	0	200
Total	\$375,000	\$250,376	\$124,624

4. PROPERTY TAX

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

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

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

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

5. RETIREMENT SYSTEM

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

Contribution rates are also prescribed by the Ohio Revised Code. OPERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2001. The Township has paid all contributions required through December 31, 2002.

**MECHANIC TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. RISK MANAGEMENT

Commercial Insurance

The Township has obtained commercial insurance for the following risks:

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

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Auditor of State Betty Montgomery

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

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

To the Board of Trustees:

We have audited the accompanying financial statements of Mechanic Township, Holmes County, Ohio, (the Township) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated June 20, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated June 20, 2003.

Internal Control Over Financial Reporting

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

However, we noted 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 Township in a separate letter dated June 20, 2003.

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

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 20, 2003

**MECHANIC TOWNSHIP
HOLMES COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-40938-001	Revised Code 5705.41(D), failure to properly certify funds. 70% of expenditures tested were not properly certified.	No	Partially Corrected. The Township Clerk utilizes purchase orders for all expenditures; however, certain expenditures tested were not properly certified. See Management Letter.
2000-40938-002	Revised Code 135.18, not securing adequate collateral for the Township's deposits.	Yes	Commercial & Savings Bank had specific collateral pledged to the Township for amounts in excess of FDIC.



**Auditor of State
Betty Montgomery**

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MECHANIC TOWNSHIP

HOLMES COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 12, 2003**