

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
REPORT ON FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Village of Mechanicsburg, Champaign County, prepared by Holbrook & Manter, for the audit period January 1, 2004 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 1, 2008

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## INDEPENDENT AUDITORS' REPORT

Village Council  
Village of Mechanicsburg  
Champaign County

We were engaged to audit the accompanying financial statements of the Village of Mechanicsburg, Champaign County, Ohio, (the Village) as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2005. Instead of the combined funds the accompanying financial statements present for 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State of Ohio permits, but does not require, governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005, or its changes in financial position for the year then ended.

Because of inadequacies in the Village's accounting records, we were unable to form an opinion regarding the amounts recorded as revenues, expenditures, and fund balances in the accompanying Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types and Similar Fiduciary Fund and the Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Proprietary Fund Types and Similar Fiduciary Fund for the years ended December 31, 2005 and 2004.

In addition, the Auditor of State of Ohio performed a special audit and issued their report dated July 16, 2004. The results of the special audit are significant and material and these reported items presented substantial limitations to our engagement.

Because of the significance of the matters stated in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the prior paragraph for the years ended December 31, 2005 and 2004.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2005. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2008 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Certified Public Accountants

February 25, 2008

**VILLAGE OF MECHANICSBURG**  
**CHAMPAIGN COUNTY**  
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN  
 FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND-  
 FOR THE YEAR ENDED DECEMBER 31, 2005

	GOVERNMENTAL FUND TYPES				FIDUCIARY	Total
	General	Special Revenue	Debt Service	Capital Project	FUND	Memorandum Only
					Expendable Trust	Total
<b>Cash receipts:-</b>						
Local taxes	\$ 33,859	\$ 40,632	\$ 0	\$ 0	\$ 0	\$ 74,491
Municipal Income Taxes	338,136	0	0	0	0	338,136
Intergovernmental	80,642	109,953	0	0	0	190,595
Special Assessments	4,130	0	0	0	0	4,130
Charges for Services	0	160,544	0	0	0	160,544
Fines, licenses, and permits	17,726	2,253	0	0	0	19,979
Miscellaneous and interest	8,668	6,353	0	52	0	15,073
<b>Total cash receipts</b>	<b>483,161</b>	<b>319,735</b>	<b>0</b>	<b>52</b>	<b>0</b>	<b>802,948</b>
<b>Cash disbursements:-</b>						
Current:-						
Security of persons and property	186,520	73,995	0	0	0	260,515
Public health services	0	102,351	0	0	0	102,351
Basic Utility Service	21,434	18,723	0	0	0	40,157
Transportation	0	87,985	0	0	0	87,985
General government	154,541	17,608	0	0	0	172,149
Capital outlay	0	8,532	0	29,576	0	38,108
Debt service						
Redemption of principal	7,989	3,414	87,635	0	0	99,038
Interest and other fiscal charges	0	0	11,642	0	0	11,642
<b>Total cash disbursements</b>	<b>370,484</b>	<b>312,608</b>	<b>99,277</b>	<b>29,576</b>	<b>0</b>	<b>811,945</b>
Total receipts over (under) cash disbursements	112,677	7,127	( 99,277)	( 29,524)	0	( 8,997)
<b>Other financing receipts (disbursements):-</b>						
Advances - in	10,000	25,000	0	0	0	35,000
Advances - out	( 25,000)	( 10,000)	0	0	0	( 35,000)
Transfers - in	0	0	0	0	0	0
Transfers - out	0	0	0	0	0	0
Other sources	6,434	0	96,621	0	0	103,055
Other uses	0	0	0	0	0	0
<b>Total other financing receipts (disbursements)</b>	<b>( 8,566)</b>	<b>15,000</b>	<b>96,621</b>	<b>0</b>	<b>0</b>	<b>103,055</b>
Excess of cash receipts and other financing receipts over (under) cash disbursements and other financing disbursements	104,111	22,127	( 2,656)	( 29,524)	0	94,058
Fund cash balances, January 1, 2005	46,906	69,388	( 1,194)	53,546	0	168,646
Fund cash balances, December 31, 2005	<u>\$ 151,017</u>	<u>\$ 91,515</u>	<u>\$ ( 3,850)</u>	<u>\$ 24,022</u>	<u>\$ 0</u>	<u>\$ 262,704</u>
<b>Reserve for encumbrances, December 31, 2005</b>	<u>\$ 380</u>	<u>\$ 12,955</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,335</u>

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



**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN  
FUND CASH BALANCES - PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND-  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<b>PROPRIETARY FUND</b>	<b>FIDUCIARY FUND</b>	<b>Total Memorandum Only</b>
	<b>Enterprise</b>	<b>Agency</b>	<b>Total</b>
<b>Operating cash receipts:-</b>			
Charges for services	\$ 343,638	\$ 0	\$ 343,638
Fines, Licenses and Permits	0	18,669	18,669
Miscellaneous	4,333	0	4,333
Total operating cash receipts	347,971	18,669	366,640
<b>Operating cash disbursements:-</b>			
Personal services	148,295	0	148,295
Contractual services	19,798	0	19,798
Supplies and materials	58,074	1,700	59,774
Other	76,162	49	76,211
Capital outlay	7,905	1,747	9,652
Total operating cash disbursements	310,234	3,496	313,730
Operating income	37,737	15,173	52,910
<b>Non-operating cash receipts:-</b>			
Intergovernmental revenue	0	0	0
Other non-operating cash receipts	0	10,429	10,429
Total non-operating cash receipts	0	10,429	10,429
<b>Non-operating cash disbursements:-</b>			
Debt service			
Redemption of principal	( 14,895)	0	( 14,895)
Interest and other fiscal charges	( 930)	0	( 930)
Other non-operating cash disbursements	( 17,630)	( 8,390)	( 26,020)
Total non-operating cash disbursements	( 33,455)	( 8,390)	( 41,845)
Excess of receipts over disbursements before interfund transfers and advances	4,282	17,212	21,494
Transfer - in	0	0	0
Transfer - out	0	0	0
Net receipts over (under) disbursements	4,282	17,212	21,494
Fund cash balances, January 1, 2005	144,658	2,721	147,379
<b>Fund cash balances, December 31, 2005</b>	<b>\$ 148,940</b>	<b>\$ 19,933</b>	<b>\$ 168,873</b>
<b>Reserve for encumbrances, December 31, 2005</b>	<b>\$ 1,477</b>	<b>\$ 150</b>	<b>\$ 1,627</b>

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

**VILLAGE OF MECHANICSBURG**  
**CHAMPAIGN COUNTY**  
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN  
 FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUND-  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	GOVERNMENTAL FUND TYPES				FIDUCIARY	Total
	General	Special Revenue	Debt Service Fund	Capital Project	FUND Expendable Trust	Memorandum Only Total
<b>Cash receipts:-</b>						
Local taxes	\$ 33,150	\$ 50,833	\$ 0	\$ 0	\$ 0	\$ 83,983
Intergovernmental	119,500	72,596	0	0	0	192,096
Charges for services	271	145,812	0	0	0	146,083
Fines, licenses, and permits	53,370	4,529	0	0	0	57,899
Miscellaneous and interest	7,608	454	0	0	0	8,062
<b>Total cash receipts</b>	<b>213,899</b>	<b>274,224</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>488,123</b>
<b>Cash disbursements:-</b>						
Current:-						
Security of persons and property	191,985	43,067	0	0	0	235,052
Public health services	5,440	179,162	0	0	0	184,602
Basic Utility Service	21,764	15,765	0	0	0	37,529
Transportation	20,331	60,863	0	0	0	81,194
General government	115,536	10,125	0	0	0	125,661
Capital outlay	8,339	0	0	0	0	8,339
Debt service						
Redemption of Principal	0	20,401	85,699	0	0	106,100
Interest and other fiscal charges	0	6,032	13,578	0	0	19,610
<b>Total cash disbursements</b>	<b>363,395</b>	<b>335,415</b>	<b>99,277</b>	<b>0</b>	<b>0</b>	<b>798,087</b>
<b>Total receipts over (under) cash disbursements</b>	<b>( 149,496)</b>	<b>( 61,191)</b>	<b>( 99,277)</b>	<b>0</b>	<b>0</b>	<b>( 309,964)</b>
<b>Other financing receipts (disbursements):-</b>						
Advances - in	0	20,000	0	0	0	20,000
Advances - out	( 20,000)	0	0	0	0	( 20,000)
Transfers - in	267,684	59,005	0	60,806	0	387,495
Transfers - out	( 80,000)	( 14,005)	0	0	0	( 94,005)
Other sources	0	0	98,105	0	0	98,105
Other uses	0	0	( 22)	( 33,696)	0	( 33,718)
<b>Total other financing receipts (disbursements)</b>	<b>167,684</b>	<b>65,000</b>	<b>98,083</b>	<b>27,110</b>	<b>0</b>	<b>357,877</b>
Excess of cash receipts and other financing receipts over (under) cash disbursements and other financing disbursements	18,188	3,809	( 1,194)	27,110	0	47,913
Fund cash balances, January 1, 2004 (restated)	28,718	65,579	0	26,436	0	120,733
Fund cash balances, December 31, 2004	\$ 46,906	\$ 69,388	\$ ( 1,194)	\$ 53,546	\$ 0	\$ 168,646
<b>Reserve for encumbrances, December 31, 2004</b>	<b>\$ 2,273</b>	<b>\$ 14,706</b>	<b>\$ 0</b>	<b>\$ 522</b>	<b>\$ 0</b>	<b>\$ 17,501</b>

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

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGE IN  
FUND CASH BALANCES - PROPRIETARY FUND TYPE AND SIMILAR FIDUCIARY FUND-  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Proprietary Fund</u>	<u>Fiduciary Fund</u>	<u>Total Memorandum Only</u>
	<u>Enterprise</u>	<u>Agency</u>	<u>Total</u>
<b>Operating cash receipts:-</b>			
Charges for services	\$ 347,142	\$ 0	\$ 347,142
Miscellaneous	2,401	0	2,401
Total operating cash receipts	349,543	0	349,543
<b>Operating cash disbursements:-</b>			
Personal services	180,129	0	180,129
Contractual services	30,954	0	30,954
Supplies and materials	33,330	0	33,330
Other	67,826	0	67,826
Capital outlay	600	0	600
Total operating cash disbursements	312,839	0	312,839
Operating income	36,704	0	36,704
<b>Non-operating cash receipts:-</b>			
Property and Other local taxes	0	267,684	267,684
Other financing sources	0	3,396	3,396
Total non-operating cash receipts	0	271,080	271,080
<b>Non-operating cash disbursements:-</b>			
Debt service			
Redemption of principal	( 4,751)	0	( 4,751)
Interest and other fiscal charges	( 1,986)	0	( 1,986)
Other non-operating cash disbursements	( 9,397)	( 1,683)	( 11,080)
Total non-operating cash disbursements	( 16,134)	( 1,683)	( 17,817)
Excess of receipts over disbursements before interfund transfers and advances	20,570	269,397	289,967
Transfer - in	0	0	0
Transfer - out	( 25,806)	( 267,684)	( 293,490)
Net receipts over (under) disbursements	( 5,236)	1,713	( 3,523)
Fund cash balances, January 1, 2004	149,894	1,008	150,902
<b>Fund cash balances, December 31, 2004</b>	<u>\$ 144,658</u>	<u>\$ 2,721</u>	<u>\$ 147,379</u>
<b>Reserve for encumbrances, December 31, 2004</b>	<u>\$ 5,058</u>	<u>\$ 150</u>	<u>\$ 5,208</u>

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

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-**

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

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

- B. *Basis of Accounting*** - These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State of Ohio, 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 of Ohio.

- C. *Cash and Investments*** - Investments are included in fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sale of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. Certificates of Deposit are valued at cost.

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

General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be restricted.

Special Revenue Funds

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

*Street Construction, Maintenance, and Repair Fund*

This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

*Fire Fund*

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

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-** (continued)

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 funds:

*Capital Projects Fund*

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

Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a non expendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds:

*Income Tax Fund*

This fund receives tax collections from village residents who work or reside in the Village, or people who work in the Village based on one percent of their gross wages.

Enterprise Funds

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

*Water, Sewer, and Surcharge Funds*

These funds are used to account for proceeds from water and sewer operations. The revenue is to be used to maintain plant operations and for water and sewer improvements.

*Ambulance Fund*

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

- E. *Budgetary Process*** - The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

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. Unencumbered appropriations lapse at year end.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-** (continued)

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.

Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2005 and 2004 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. *Accumulated 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.

**NOTE 2 - CLASSIFICATION RESTATEMENT OF BEGINNING FUND BALANCES:-**

During 2003, monies were received and invested in a certificate of deposit by the Village and the revenue was recorded in the Fire Building Fund. During 2004, a determination was made by the client that the Fire Building Fund was not the appropriate fund for the certificate of deposit and that the proper fund to record the revenue is the General Fund. A restatement of the beginning fund balances due to prior classification errors was determined to be necessary to properly state the fund balances based upon the original investment.

	<b>General Fund</b>	<b>Capital Projects Fund</b>	
Balance, December 31, 2003	\$ 25,147	\$ 30,007	
Restatement	3,571	( 3,571)	
Balance, January 1, 2004 (restated)	<u>\$ 28,718</u>	<u>\$ 26,436</u>	

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 3 - BUDGETARY ACTIVITY:-**

Budgetary activity for the year ending December 31, 2005 was as follows:

**2005 Budgeted vs. Actual Receipts**

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 492,430	\$ 499,595	\$ 7,165
Special Revenue	344,725	344,735	10
Debt Service	96,620	96,621	1
Capital Project	0	52	52
Enterprise	347,965	347,971	6
Agency	<u>29,094</u>	<u>29,098</u>	<u>4</u>
<b>Total</b>	<b>\$ <u>1,310,834</u></b>	<b>\$ <u>1,318,072</u></b>	<b>\$ <u>7,238</u></b>

**2005 Budgeted vs. Actual Budgetary Basis Expenditures**

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 493,959	\$ 395,864	\$ 98,095
Special Revenue	423,930	335,563	88,367
Debt Service	100,000	99,277	723
Capital Projects	98,016	29,576	68,440
Enterprise	411,645	345,166	66,479
Agency	<u>39,309</u>	<u>12,036</u>	<u>27,273</u>
<b>Total</b>	<b>\$ <u>1,566,859</u></b>	<b>\$ <u>1,217,482</u></b>	<b>\$ <u>349,377</u></b>

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 3 - BUDGETARY ACTIVITY:-** (continued)

Budgetary activity for the year ending December 31, 2004 was as follows:

**2004 Budgeted vs. Actual Receipts**

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 472,609	\$ 481,583	\$ 8,974
Special Revenue	314,722	353,229	38,507
Debt Service	96,527	98,105	1,578
Capital Project	41,153	60,806	19,653
Enterprise	344,250	349,543	5,293
Agency	<u>268,416</u>	<u>271,080</u>	<u>2,664</u>
<b>Total</b>	<b>\$ <u>1,537,677</u></b>	<b>\$ <u>1,614,346</u></b>	<b>\$ <u>76,669</u></b>

**2004 Budgeted vs. Actual Budgetary Basis Expenditures**

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 482,959	\$ 465,668	\$ 17,291
Special Revenue	449,641	364,126	85,515
Debt Service	115,918	99,299	16,619
Capital Projects	85,696	34,218	51,478
Enterprise	398,606	359,837	38,769
Agency	<u>292,984</u>	<u>269,517</u>	<u>23,467</u>
<b>Total</b>	<b>\$ <u>1,825,804</u></b>	<b>\$ <u>1,592,665</u></b>	<b>\$ <u>233,139</u></b>



**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 4 - EQUITY IN POOLED CASH:-**

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

	<b>2005</b>	<b>2004</b>
Deposits	\$ 427,953	\$ 312,454
Certificate of deposit	3,624	3,571
Total deposits	\$ 431,577	\$ 316,025
Fund cash balances:-		
Governmental Fund Types	\$ 262,704	\$ 168,646
Enterprises Fund	148,940	144,658
Agency Fund	19,933	2,721
Total fund cash balances	\$ 431,577	\$ 316,025

**Deposits** - The Village's deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

**NOTE 5 - PROPERTY TAX:-**

Real property taxes become a lien on January 1, preceding the October 1 date for which rates are adopted by the 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.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 6 - LOCAL INCOME TAX:-**

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

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

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

**NOTE 7 - DEBT:-**

Debt outstanding at December 31, 2005 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA Pure Water Loan	\$ 6,430	2.00%
OWDA Sewer Retirement Loan	35,936	6.25%
OWDA Sewer Retirement Loan (1991)	380,067	2.00%
OWDA Elevated Storage Tank Loan	282,656	5.01%
Citizens National Bank Water and Sewer Improvements	17,350	6.13%
Champaign Bank Fire Department Rescue/Pumper Loan	52,449	6.50%
USDA Rural Development Bonds for Ambulance	<u>6,200</u>	4.50%
Total	<u>\$ 781,088</u>	

During 1991, the Village entered into a loan agreement with the Ohio Water Development Authority for assistance in expanding and improving the Village's water system. The total loan amount was for \$1,500,000 with an interest rate of 2.00%, and payments are required over 20 years through July 1, 2010. As of December 31, 2005, the Village has an outstanding balance on the loan of \$6,430.

During 1972, the Ohio Sewer Retirement Loan through the Ohio Water Development Authority was entered into for the purpose of expanding and improving the sewer system. The total loan was for \$244,405 with an interest rate of 6.25%, and payments of principal and interest are required over 40 years through July 1, 2011. As of December 31, 2005, the Village has an outstanding balance on the loan of \$35,936.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 7 - DEBT**:- (continued)

During 1991, the Village entered into a second loan agreement with the Ohio Water Development Authority for assistance in expanding and improving the Village's sewer system. The total loan amount was for \$1,500,000 with an interest rate of 2.00%, and payments of principal and interest are required over 20 years through July 1, 2010. As of December 31, 2005, the Village has an outstanding balance on the loan of \$380,067.

The Citizens National Bank Loan was entered into during 2000 and was used for water and sewer improvements with payments of principal and interest installments due monthly to the bank. The total loan amount was \$50,000 with an interest rate of 6.25%. As of December 31, 2005, the Village has an outstanding balance on the loan of \$17,350.

During 1998, the Village entered into a loan agreement with Champaign Bank for the purchase of a Fire Department Rescue/Pumper. The total loan amount was for \$161,762 with an interest rate of 6.50% and installments due semiannually through February, 2008. As of December 31, 2005, the Village has an outstanding balance on the loan of \$52,449.

During 1999, the Village entered into an agreement with the United States Department of Agriculture, Rural Development, also known as USDA. The USDA Rural Development issued bonds for \$22,000, with a fixed interest rate of 4.5%, which was used by the Village for the purchase of an ambulance with the bonds maturing annually with principal and interest due. As of December 31, 2005, the Village has an outstanding balance of \$6,200.

During 2004, the Village entered into a loan agreement with the Ohio Water Development Authority for assistance in expanding and improving the Village's elevated storage tank. The total loan amount was for \$323,474 with an interest rate of 5.01%. The outstanding balance on this loan, including capitalized interest, at December 31, 2005, is \$282,656. This loan will be repaid in semiannual installments beginning July 1, 2006. As of December 31, 2005 and 2004, and up to the report date, this loan was still open and there was no amortization schedule available.

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

<u>Year Ending December 31,</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2006	\$ 124,293	\$ 24,264	\$ 148,557
2007	121,782	18,369	140,151
2008	110,693	12,241	122,934
2009	95,877	3,575	99,452
2010	40,967	3,366	44,333
2011-2015	<u>4,820</u>	<u>2,563</u>	<u>7,383</u>
Total on above loans	498,432	<u>\$ 64,378</u>	<u>\$ 562,810</u>
2004 OWDA Loan	<u>282,656</u>	(no amortization available)	
<b>Total Principal</b>	<b>\$ <u>781,088</u></b>		

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 8 - LEASE OBLIGATIONS:-**

The Village entered into a lease agreement during 2002 with the US Bancorp for a new copier. The term consisted of 48 monthly payments of \$198 through August 24, 2006. The copier can be purchased by the Village at fair market value at the end of the lease agreement.

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

The Village entered into a lease agreement during 2004 with Dell Financial for new computers in the police station. The term consisted of monthly payments of \$88 through February 2008. The computers can be purchased by the Village until December 3, 2005 for a \$2,384 buyout.

The Village entered into a lease agreement during 2004 with Ford Motor Credit for a new police cruiser. The term consisted of annual payments of \$7,761 through November 1, 2006. The police cruiser can be purchased by the Village upon at 30 days prior written notice at a purchase price equal to the sum of (a) the concluding payment for the immediately preceding Lease Payment date, (b) the accrued interest portion of the next Lease Payment through the date the purchase price is paid, and (c) any other amounts then due under the Master Agreement.

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

<u>Description</u>	<u>Term</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
US Bancorp - Copier	08/24/01 - 08/24/06	\$ 1,580	\$ 0	\$ 0
GE Capital - Projector	07/12/03 - 07/12/08	420	420	210
Dell Financial- Computers	01/30/04 - 02/28/08	1,056	1,056	176
Ford Motor Credit- Police Cruiser	11/01/04 - 11/01/06	<u>7,761</u>	<u>0</u>	<u>0</u>
Total		<u>\$ 10,817</u>	<u>\$ 1,476</u>	<u>\$ 386</u>

**NOTE 9 - RETIREMENT SYSTEMS:-**

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

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**NOTE 9 - RETIREMENT SYSTEMS:-** (continued)

Contribution rates are also prescribed by the Ohio Revised Code. For 2005 and 2004, members of PFDPF contributed 10.1% 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 wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

**NOTE 10 - RISK MANAGEMENT:-**

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

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

The Plan issues its own policies and reinsures with A-VII or better rated carriers, except for a 5% portion retained by the Plan. After September 1, 2003, the Plan pays the lesser of 5% or \$25,000 for casualty losses and the lesser of 5% or \$50,000 for property losses. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and members' equity at December 31:

	<u>2005</u>	<u>2004</u>
Assets	\$ 8,219,430	\$ 6,685,522
Liabilities	( 2,748,639)	( 2,227,808)
Members' Equity	<u>\$ 5,470,791</u>	<u>\$ 4,457,714</u>

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

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



**Independent Accountants' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Required by Government Auditing Standards**

Village Council  
Village of Mechanicsburg  
Champaign County

We were engaged to audit the accompanying financial statements of the Village of Mechanicsburg, Champaign County, Ohio (the Village), as of and for the years ended December 31, 2005 and 2004, and have issued a disclaimer of opinion due to inadequacies of the Village's records, within our report thereon dated February 25, 2008. We also noted the Village had followed accounting practices the Auditor of State of Ohio prescribes rather than accounting principles generally accepted in the United States of America within the report.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine 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 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-005, 2005-006, 2005-007, 2005-008, 2005-009, and 2005-010. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting 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 material weaknesses. However, of the reportable conditions described above, we consider items 2005-008, 2005-009, and 2005-010 to be material weaknesses. Also, in a separate letter to the Village's management dated February 25, 2008, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2005-001, 2005-002, 2005-003 and 2005-004. In a separate letter to the Village's management dated February 25, 2008, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Village Council. It is not intended for anyone other than these specified parties.

The image shows a handwritten signature in black ink that reads "Shuller & Manton". The signature is written in a cursive, flowing style.

Certified Public Accountants

February 25, 2008

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
SCHEDULE OF FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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

<b>Finding Number</b>	<b>2005-001</b>
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**Non-Compliance Citation- Prior Certification of Expenditures**

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

This section also provides an exception to this requirement:

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

Numerous expenditures tested for 2004 and 2005 were initiated without obtaining the prior certification of the Clerk. None of these expenditures met the exception provided for in section 5705.41 (d) (i.e., then and now certificate).

These budgetary controls were not working properly. These budgetary controls are essential to ensure proper spending and to avoid unnecessary expenditures. Procedures should be adopted by the Village that would assure that commitments are properly encumbered prior to the expenditure of Village funds.

**Officials' Response**

The Village is aware of the above issue and subsequent to the audit period, the Village hired a new fiscal officer/clerk. He has implemented many new policies and does a much better job monitoring the certification of expenditures.

<b>Finding Number</b>	<b>2005-002</b>
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**Non Compliance Citation- Proper Classification of Funds**

Ohio Rev. Code Section 5705.41 (C) states that no subdivision is to expend money except by a proper warrant drawn against an appropriate fund.

During expenditure testing, we noted instances of expenditures that were not charged to the proper fund.

The proper recording of expenditures is essential to ensure that funds are not over drawn and to ensure that the budget process is working properly and is a useful tool for management. Procedures should be adopted to ensure that the Village records expenditures to the proper accounts.

**Officials' Response**

The Village intends on monitoring this issue throughout the year by reviewing the appropriate reports to determine that the controls are in place and functioning properly.



**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
SCHEDULE OF FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2005-003</b>
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**Non Compliance Citation- Inter-fund Transfers**

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

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

**Officials' Response**

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

<b>Finding Number</b>	<b>2005-004</b>
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**Non-Compliance Citation- Public Property**

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

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

**Officials' Response**

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

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
SCHEDULE OF FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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

<b>Finding Number</b>	<b>2005-005</b>
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**Internal Control Reportable Conditions- Record Retention**

During our examination and testing of expenditures, we noted that Village employees did not retain an invoice or other adequate support for several of the expenditures tested in 2004 and 2005. Adequate documentation is a key element of an internal control system; this condition limits the control and accountability over Village expenditures and allows for the possibility of improper payment to occur. We advise that invoices for all expenditures be retained to support the proper public purpose of the payment.

**Officials' Response**

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

<b>Finding Number</b>	<b>2005-006</b>
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**Internal Control Reportable Conditions- Approval of Invoices**

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

**Officials' Response**

The Village is aware of the above issue and subsequent to the audit period, the Village hired a new fiscal officer/clerk. He has implemented many new policies and does a much better job monitoring the certification of expenditures.

<b>Finding Number</b>	<b>2005-007</b>
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**Internal Control Reportable Conditions- Auditor of State Special Report**

Based on our review of the Ohio Auditor of State's special report dated July 16, 2004, we reiterate their management comments and recommend that the Village takes prompt action to address them. Please refer to their report and specifically their comments regarding voided receipts, records retention schedule, and Mayor's court computerization fees fund.

**Officials' Response**

The Village is aware of the above issue and subsequent to the audit period, the Village hired a new fiscal officer/clerk. He has implemented many new policies and is constantly striving to improve the Village's controls.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
SCHEDULE OF FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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

<b>Finding Number</b>	<b>2005-008</b>
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**Internal Control Reportable Conditions - Material Weakness – Incomplete Bank Reconciliations**

The Fiscal Officer/Clerk did not accurately perform monthly bank reconciliations. The outstanding check listings were inaccurate and incomplete. Failure to accurately reconcile bank balances to the cash journal resulted in errors in the accounting system occurring and going undetected by management. On December 31, 2005, the client recorded a \$6,434 adjustment to the general fund in favor of the Village’s ledgers for the 2004/2005 audit due primarily to book keeping errors. The cash journal should be reconciled to the bank statements with an explanation of reconciling items. The Village Council should review monthly bank reconciliations and sign them to evidence their review to assist with the verification of accountability over all Village assets.

**Officials’ Response**

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

<b>Finding Number</b>	<b>2005-009</b>
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**Internal Control Reportable Conditions – Material Weakness - Village Council Fiduciary Responsibility & Maintenance of Financial Records**

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

For the years ended 2005 and 2004, the Village’s accounting records were maintained in a manner where information was missing and incomplete. The Village’s fiscal operations were not monitored appropriately, which allowed the financial records to remain incomplete and inaccurate. The lack of monitoring financial activities ultimately results in Council’s inability to control resources and make sound financial decisions.

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

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

Beyond the responsibilities for monitoring and implementing control procedures for the Village’s operations, the Council should demonstrate a commitment to the highest ethical standards and this commitment needs to be communicated and adopted throughout the Village. We also suggest that the Council also develop ethics policies, which would outline various expectations and set the tone for nothing less than the highest ethical standards.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
SCHEDULE OF FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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

<b>Finding Number</b>	<b>2005-009 - continued</b>
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**Internal Control Reportable Conditions – Material Weakness - Village Council Fiduciary Responsibility & Maintenance of Financial Records - (continued)**

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

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

**Officials’ Response**

The Village is aware of the above issue and subsequent to the audit period, the Village hired a new fiscal officer/clerk. He has implemented many new policies and is constantly striving to improve the Village’s record retention and controls.

<b>Finding Number</b>	<b>2005-010</b>
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**Internal Control Reportable Conditions – Material Weakness - Internal Controls**

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

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

The responsibility for establishing an effective system of internal controls and periodically reviewing this system lies with the Village Council. A well-designed system would provide reasonable assurance that the Village’s financial reporting is reliable, its operations are effective and efficient, and that it complies with applicable laws and regulations. In its most recent *Report to the Nation on Occupational Fraud and Abuse*, the Association of Certified Fraud Examiners (ACFE) identified internal controls as one of the ways to help prevent and detect fraudulent activities.

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

- Reconciliations between bank balances and the general ledger should be performed on a monthly basis and any issues addressed promptly. This will assist in detecting errors in the financial banking records. During or testing we noted that often when reconciliations were attempted they were either incomplete or incorrect.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
SCHEDULE OF FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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

<b>Finding Number</b>	<b>2005-010 - continued</b>
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**Internal Control Reportable Conditions – Material Weakness - Internal Controls - (continued)**

- As part of our audit procedures, our standard bank confirmation for the certificate of deposit revealed that the authorized check signers were not up to date. This presents a major security breach and should be corrected as soon as possible. We recommend that the Village periodically check the authorized check-signer listing on the bank records and, if necessary, update the list.
- The segregation of duties is an integral part of system controls within the Village. This includes separating the duties of billing, collection, depositing, recording, making payments, and reconciliation. The segregation of duties could be strengthened in each of the areas above to make the controls more effective within the Village. This is an area that is difficult for many of the Villages to implement effectively due to such a small number of employees. The Village should segregate to the best of their ability to provide for segregation of duties between employees. This will assist with the checks and balances throughout the Village in the various processing cycles.
- The Village’s filing system was in disarray because documents were not filed consistently or logically. During our testing we noted that monthly consumption reports for water and sewer, monthly bank statements, invoices, purchase orders, debt agreements, federal 941’s, and other miscellaneous documents could not be located. The Village should create consistent and logical filing systems.

The Village should only pay vendors based upon vendor invoices received or valid, properly approved requisition forms for employee reimbursements. Once these are paid, they should be clearly marked or stamped as paid with the appropriate documentation attached to support the payment made. This procedure will assist with avoiding duplicate payments and potential loss to the Village.

- Expenditures were being written to Village employees for reimbursements without proper authorization. We recommend that the Village implement a formal policy for any type of reimbursements from the Village to any employees to ensure proper payment is made from the Village to the employee.
- It is imperative that all Village expenditures be reviewed by someone other than the clerk/fiscal officer to ensure that they are properly authorized and expensed for proper public purpose and coded to the appropriate funds when paid. This review will also help to ensure that payments are made for the correct amounts and to the correct vendors.

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

**Officials’ Response**

The Village is aware of the above issue and subsequent to the audit period, the Village hired a new fiscal officer/clerk. He has implemented many new policies and is constantly striving to improve the Village’s record retention and internal controls.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
N-1	ORC 5705.41 (D) - Failure to properly obtain fiscal certificates	No	Reissued as a Finding in the current audit report as Finding #2005-001.
N-2	ORC 5705.41 (C) - Failure to properly use fiscal certificates	No	Reissued as a Finding in the current audit report as Finding #2005-002.
N-3	ORC 5705.14, 5705.15, 5705.16- Failure to properly approve inter-fund transfers	No	Reissued as a Finding in the current audit report as Finding #2005-003.
N-4	ORC 149.351(A) - Failure to locate records that are property of the public office	No	Reissued as a Finding in the current audit report as Finding #2005-004.
R-1	Failure to retain adequate support for expenditures	No	Reissued as a Finding in the current audit report as Finding #2005-005.
R-2	Failure to review and approve all invoices presented for payment	No	Reissued as a Finding in the current audit report as Finding #2005-006.
R-3	Comments from the Auditor of State's special report dated July 16, 2004.	Partially	Reissued as a Finding in the current audit report as Finding #2005-007.



**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF MECHANICSBURG**

**CHAMPAIGN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 15, 2008**