

VILLAGE OF MECHANICSBURG
CHAMPAIGN COUNTY
REGULAR AUDIT
FOR YEARS ENDED DECEMBER 31, 2009 AND 2008



Balestra, Harr & Scherer, CPAs, Inc.

528 South West St, P.O. Box 687, Piketon, Ohio 45661 Phone: 740.289.4131 Fax: 740.289.3639
800 Gallia Street, Suite 38, Portsmouth, Ohio 45662 Phone: 740.876.9121



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Village of Mechanicsburg, Champaign County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2008 through December 31, 2009. 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 Auditor's 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 Auditor's Report* also includes an 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 9, 2010

This Page is Intentionally Left Blank.

VILLAGE OF MECHANICSBURG
CHAMPAIGN COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditors' Report	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Funds – For the Year Ended December 31, 2009	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Proprietary Fund Type and Similar Fiduciary Fund – For the Year Ended December 31, 2009	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Funds – For the Year Ended December 31, 2008	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Proprietary Fund Type and Similar Fiduciary Fund – For the Year Ended December 31, 2008	6
Notes to the Financial Statements	7
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	14
Schedule of Findings	16
Schedule of Prior Audit Findings	19



Independent Auditor's Report

Village of Mechanicsburg
Champaign County
18 North Main Street
Mechanicsburg, Ohio 43044

To the Village Council:

We have audited the accompanying financial statements of the Village of Mechanicsburg, Champaign County, (the Village) as of and for the years ended December 31, 2009 and 2008. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standard*. Those standards require that we plan and perform the audit to reasonably assure 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 opinions.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State 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.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting its larger (i.e., major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008 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, 2009 and 2008, or its changes in financial position or cash flows, where applicable, for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Mechanicsburg, Champaign County, as of December 31, 2009 and 2008, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 September 30, 2010, 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 this 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.



Balestra, Harr & Scherer, CPAs, Inc.

September 30, 2010

Village of Mechanicsburg
Champaign County, Ohio

Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
All Governmental Funds
For the Year Ended December 31, 2009

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Local Taxes	\$ 60,196	\$ 60,914	\$ -	\$ -	\$ 121,110
Municipal Income Taxes	298,022	-	-	-	298,022
Intergovernmental	61,528	100,035	-	-	161,563
Gifts and Donations	-	600	-	-	600
Charges for Service	-	221,403	-	-	221,403
Fines, Licenses, and Permits	28,932	-	-	-	28,932
Interest	5,465	2,060	-	-	7,525
Miscellaneous	12,807	10,873	-	-	23,680
Total Cash Receipts	466,950	395,885	-	-	862,835
Cash Disbursements:					
Current:					
Security of Persons and Property	248,978	304,115	-	-	553,093
Public Health Services	-	-	-	-	-
Basic Utility Service	12,498	-	-	-	12,498
Transportation	-	105,351	-	-	105,351
General Government	182,308	533	-	-	182,841
Capital Outlay	-	-	-	148,873	148,873
Debt Service:					
Redemption of Principal	-	-	95,917	-	95,917
Interest and Other Fiscal Charges	-	-	3,360	-	3,360
Total Cash Disbursements	443,784	409,999	99,277	148,873	1,101,933
Total Cash Receipts Over/(Under) Cash Disbursements	23,166	(14,114)	(99,277)	(148,873)	(239,098)
Other Financing Receipts and (Disbursements):					
Proceeds from Debt	-	-	-	200,000	200,000
Transfers In	-	22,500	99,277	-	121,777
Transfers Out	(22,500)	-	-	-	(22,500)
Total Other Financing Receipts/(Disbursements)	(22,500)	22,500	99,277	200,000	299,277
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	666	8,386	-	51,127	60,179
Fund Cash Balances, January 1	396,549	108,807	-	4,132	509,488
Fund Cash Balances, December 31	\$ 397,215	\$ 117,193	\$ -	\$ 55,259	\$ 569,667
Reserved for Encumbrances, December 31	\$ 8,259	\$ 7,441	\$ -	\$ -	\$ 15,700

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

Village of Mechanicsburg
Champaign County, Ohio

*Combined Statement of Cash Receipts, Cash Disbursements, and Changes in
Fund Cash Balances - Proprietary Fund Type and Similar Fiduciary Fund
For the Year Ended December 31, 2009*

	Proprietary Fund	Fiduciary Fund	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Service	\$ 589,855	\$ -	\$ 589,855
Other Operating Receipts	7,095	-	7,095
Total Operating Cash Receipts	596,950	-	596,950
Operating Cash Disbursements:			
Personal Services	147,682	-	147,682
Contractual Services	51,469	-	51,469
Supplies and Materials	160,836	-	160,836
Other	3,886	-	3,886
Capital Outlay	-	-	-
Total Operating Cash Disbursements	363,873	-	363,873
Operating Income	233,077	-	233,077
Non-operating Cash Receipts:			
Other Non-operating Cash Receipts	-	27,423	27,423
Total Non-operating Cash Receipts	-	27,423	27,423
Non-operating Cash Disbursements:			
Redemption of Principal	(43,431)	-	(43,431)
Interest and Other Fiscal Charges	(21,478)	-	(21,478)
Other Non-operating Cash Disbursements	-	(26,566)	(26,566)
Total Non-operating Cash Disbursements	(64,909)	(26,566)	(91,475)
Net Receipts Over/(Under) Disbursements	168,168	857	169,025
Excess of Receipts Over Disbursements Before Transfers	168,168	857	169,025
Transfers Out	(99,277)	-	(99,277)
Net Receipts Over/(Under) Disbursements	68,891	857	69,748
Fund Cash Balances, January 1	153,420	19,764	173,184
Fund Cash Balances, December 31	<u>\$ 222,311</u>	<u>\$ 20,621</u>	<u>\$ 242,932</u>
Reserved for Encumbrances, December 31	<u>\$ 2,110</u>	<u>\$ -</u>	<u>\$ 2,110</u>

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

Village of Mechanicsburg
Champaign County, Ohio

Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
All Governmental Funds
For the Year Ended December 31, 2008

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Project	
Cash Receipts:					
Local Taxes	\$ 56,421	\$ 58,913	\$ -	\$ -	\$ 115,334
Municipal Income Taxes	323,141	-	-	-	323,141
Intergovernmental	71,363	82,143	-	-	153,506
Gifts and Donations	250	14,045	-	-	14,295
Charges for Service	-	200,149	-	-	200,149
Fines, Licenses, and Permits	37,194	2,463	-	-	39,657
Interest	18,767	4,937	-	-	23,704
Miscellaneous	42,478	3,781	-	-	46,259
Total Cash Receipts	549,614	366,431	-	-	916,045
Cash Disbursements:					
Current:					
Security of Persons and Property	245,808	287,581	-	-	533,389
Basic Utility Service	11,117	-	-	-	11,117
Transportation	-	154,911	-	-	154,911
General Government	235,100	1,782	-	-	236,882
Capital Outlay	-	-	-	52,317	52,317
Debt Service:					
Interest and Other Fiscal Charges	-	-	31	-	31
Total Cash Disbursements	492,025	444,274	31	52,317	988,647
Total Cash Receipts Over/(Under) Cash Disbursements	57,589	(77,843)	(31)	(52,317)	(72,602)
Other Financing Receipts and (Disbursements):					
Transfers In	-	45,000	-	-	45,000
Transfers Out	(45,000)	-	-	-	(45,000)
Total Other Financing Receipts/(Disbursements)	(45,000)	45,000	-	-	-
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	12,589	(32,843)	(31)	(52,317)	(72,602)
Fund Cash Balances, January 1 *	383,960	141,650	31	56,449	582,090
Fund Cash Balances, December 31	\$ 396,549	\$ 108,807	\$ -	\$ 4,132	\$ 509,488
Reserved for Encumbrances, December 31	\$ 2,427	\$ 11,200	\$ -	\$ -	\$ 13,627

* - Restated see note 10

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

Village of Mechanicsburg
Champaign County, Ohio

*Combined Statement of Cash Receipts, Cash Disbursements, and Changes in
Fund Cash Balances - Proprietary Fund Type and Similar Fiduciary Fund
For the Year Ended December 31, 2008*

	Proprietary Fund	Fiduciary Fund	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Service	\$ 574,219	\$ -	\$ 574,219
Other Operating Receipts	20,211	-	20,211
Total Operating Cash Receipts	594,430	-	594,430
Operating Cash Disbursements:			
Personal Services	146,452	-	146,452
Contractual Services	75,332	-	75,332
Supplies and Materials	167,624	-	167,624
Other	2,693	-	2,693
Total Operating Cash Disbursements	392,101	-	392,101
Operating Income	202,329	-	202,329
Non-operating Cash Receipts:			
Other Non-operating Cash Receipts	-	38,205	38,205
Total Non-operating Cash Receipts	-	38,205	38,205
Non-operating Cash Disbursements:			
Redemption of Principal	(101,169)	-	(101,169)
Interest and Other Fiscal Charges	(20,910)	-	(20,910)
Other Non-operating Cash Disbursements	-	(47,187)	(47,187)
Total Non-operating Cash Disbursements	(122,079)	(47,187)	(169,266)
Fund Cash Balances, January 1 *	73,170	28,746	101,916
Fund Cash Balances, December 31	<u>\$ 153,420</u>	<u>\$ 19,764</u>	<u>\$ 173,184</u>
Reserved for Encumbrances, December 31	<u>\$ 10,033</u>	<u>\$ -</u>	<u>\$ 10,033</u>

* - Restated see note 10

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, 2009 and 2008**

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 government 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, 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 and Investments

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:

1. General Fund

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

2. Special Revenue Funds

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

Street Construction, Maintenance, and Repair Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

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, 2009 and 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Fund Accounting

3. Capital Project Funds

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

4. Fiduciary Funds (Agency Funds)

Funds for which the Village is acting in an agency capacity are classified as agency funds:

Mayor's Court Fund- This fund receives revenues from fines.

5. 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.

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, function or object level of control, and appropriations may not exceed estimated resources. The Village 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.

2. Estimated Resources

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

**VILLAGE OF MECHANICSBURG
CHAMPAIGN COUNTY
Notes to the Financial Statements
December 31, 2009 and 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end need not be re-appropriated.

A summary of 2009 and 2008 budgetary activity appears in Note 6.

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

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments 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:

	2009	2008
Demand deposits	\$808,837	\$678,910
Certificates of deposit	3,762	3,762
Total deposits	\$812,599	\$682,672

Deposits: Deposits are either insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

3. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2009 and 2008, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 10 percent of their gross salaries and the Village contributed an amount equaling 14 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2009.

**VILLAGE OF MECHANICSBURG
CHAMPAIGN COUNTY
Notes to the Financial Statements
December 31, 2009 and 2008**

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by 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 payment, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

5. 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.

6. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2009 and 2008 follows:

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ -	\$ 466,950	\$ 466,950
Special Revenue	-	418,385	418,385
Debt Service	-	99,277	99,277
Capital Projects	-	200,000	200,000
Enterprise	-	596,950	596,950
Agency	-	27,423	27,423
Total	\$ -	\$ 1,808,985	\$ 1,808,985

**VILLAGE OF MECHANICSBURG
CHAMPAIGN COUNTY
Notes to the Financial Statements
December 31, 2009 and 2008**

6. BUDGETARY ACTIVITY (Continued)

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 502,353	\$ 474,543	\$ 27,810
Special Revenue	440,639	417,440	23,199
Debt Service	116,900	99,277	17,623
Capital Project	232,540	148,873	83,667
Enterprise	433,233	530,169	(96,936)
Agency	44,050	26,566	17,484
Total	<u>\$ 1,769,715</u>	<u>\$ 1,696,868</u>	<u>\$ 72,847</u>

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 407,196	\$ 549,614	\$ 142,418
Special Revenue	396,318	411,431	15,113
Debt Service	-	-	-
Capital Project	-	-	-
Enterprise	260,000	594,430	334,430
Agency	12,750	38,205	25,455
Total	<u>\$ 1,076,264</u>	<u>\$ 1,593,680</u>	<u>\$ 517,416</u>

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 361,087	\$ 539,452	\$ (178,365)
Special Revenue	353,118	455,474	(102,356)
Debt Service	-	31	(31)
Capital Project	6,000	52,317	(46,317)
Enterprise	544,491	524,213	20,278
Agency	7,800	47,187	(39,387)
Total	<u>\$ 1,272,496</u>	<u>\$ 1,618,674</u>	<u>\$ (346,178)</u>

7. RISK MANAGEMENT

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is 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 coverages, modified for each Member's needs. The plan pays judgments, settlements, and other expenses resulting from claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A-VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan retains the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses.

Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

**VILLAGE OF MECHANICSBURG
CHAMPAIGN COUNTY
Notes to the Financial Statements
December 31, 2009 and 2008**

7. RISK MANAGEMENT (Continued)

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

The Pool's audited financial statements conform to generally accepted accounting principles, and reported the following assets, liabilities, and retained earnings at December 31:

	2009	2008
Assets	\$11,176,186	\$10,471,114
Liabilities	(4,852,485)	(5,286,781)
Member's Equity	\$6,323,701	\$5,184,333

Complete audited financial statements for The Ohio Government Risk Management Plan can be obtained at the Plan's website, www.ohioplan.org.

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

8. DEBT

Debt outstanding at December 31, 2009 was as follows:

	Principal	Interest Rate
Water System Improvement Bond	\$ 162,586	4.10%
OWDA Sewer Retirement Loan	13,929	6.25%
OWDA Sewer Retirement Loan (1991)	77,389	2.00%
OWDA Elevated Storage Tank Loan	292,901	5.01%
Total	\$ 546,805	

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, 2009, the Village has an outstanding balance on the loan of \$11,842.

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, 2009, the Village has an outstanding balance on the loan of \$33,973.

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%. As of December 31, 2009, the Village has an outstanding balance on the loan of \$288,319.

During 2009, the Village entered into a loan agreement for cost of acquiring and installing improvements to the water supply treatment and distribution system. The total loan amount was for \$200,000 with an interest rate of 4.10%. As of December 31, 2009, the Village has an outstanding balance on the loan of \$162,586.

**VILLAGE OF MECHANICSBURG
CHAMPAIGN COUNTY
Notes to the Financial Statements
December 31, 2009 and 2008**

8. DEBT (Continued)

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

Year Ending December 31,	Principal Amount	Interest Amount	Total Amount
2010	\$ 62,022	\$ 15,921	\$ 77,943
2011	30,856	21,088	51,944
2012	27,175	19,583	46,758
2013	28,386	18,369	46,755
2014	29,655	17,102	46,757
2015-2019	125,025	64,288	189,313
2020-2024	70,892	40,863	111,755
2025-2029	90,792	19,574	110,366
2030-2031	82,002	11,611	93,613
Total Loan	<u>\$ 546,805</u>	<u>\$ 228,399</u>	<u>\$ 775,204</u>

9. COMPLIANCE

Contrary to Ohio law, the Village did not certify expenditures prior to making order or contracts.

Contrary to Ohio law, the Village's expenditures exceeded appropriations as of December 31, 2008 and December 31, 2009.

Contrary to Ohio law, the Village appropriated more funds than they had estimated and available.

10. PRIOR PERIOD ADJUSTMENT

Due to errors in the Village's accounting system, the following are the restated balances resulting from this restatement:

	Special Revenues	Debt Service	Capital Projects	Agency
December 31, 2007	\$ 164,284	\$ -	\$ -	\$ 41,765
Restatement	(22,634)	31	56,449	(13,019)
December 31, 2007 - Restated	<u>\$ 141,650</u>	<u>\$ 31</u>	<u>\$ 56,449</u>	<u>\$ 28,746</u>



**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
18 North Main Street
Mechanicsburg, Ohio 43044

We have audited the financial statements of the Village of Mechanicsburg, Champaign County, (the Village) as of and for the years ended December 31, 2009 and 2008 and have issued our report thereon dated September 30, 2010, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United State of America. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider significant deficiencies in internal control over financial reporting. We consider findings 2009-002 and 2009-006 to be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

We also noted other matters not requiring inclusion in this report that we reported to the Village's management a separate letter dated September 30, 2010.

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 or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2009-001, 2009-003, 2009-004 and 2009-005.

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

We also noted certain compliance and matters not requiring inclusion in this report that we reported to the Village's management a separate letter dated September 30, 2010.

We intend this report solely for the information and use of the Village's management and the Village Council. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.
September 30, 2010

**VILLAGE OF MECHANICSBURG
CHAMPAIGN COUNTY**

Schedule of Findings and Responses
For the Fiscal Years Ended December 31, 2009 and 2008

Finding Number 2009-001

Material Noncompliance – Prior Certification of Expenditures

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

The section also provides the following 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 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 2008 and 2009 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).

Procedures should be adopted by the Village that would assure that commitments are properly encumbered prior to the expenditure of Village funds.

Client Response: Beginning in 2009, the Fiscal Officer and Clerk provided a written memo to all departments indicating the proper procedure for, and importance of, requesting and obtaining purchase orders prior to all purchases. Compliance has improved significantly since this communication. In 2010, Fiscal Officer attended the Local Government Officers conference and learned about the proper use of Blanket and Super Blanket Pos for items such as utilities. Use of these will begin in 2010.

Finding Number 2009-002

Significant Deficiency – Record Retention

During our examination and testing of expenditures, we noted that Village employees did not retain an approved purchase order and in certain instances other adequate support for several of the expenditures tested in 2008. 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. The Village should retain invoices for all expenditures to support the proper public purpose of the payment.

Client Response: Beginning in 2010, Village Clerk is required to prepare packets containing each check, purchase order, purchase order request form, invoice and other related documentation. These packets are made available to the Fiscal Officer, Mayor, Administrator and all Council members for review. The Fiscal Officer and Finance committee members are required to review and sign off that they have reviewed this documentation; other officials also sign off on their review when completed. This process was implemented to ensure complete documentation, as well as to serve as an internal control over expenditures.

**VILLAGE OF MECHANICSBURG
CHAMPAIGN COUNTY**

Schedule of Findings and Responses
For the Fiscal Years Ended December 31, 2009 and 2008

Finding Number 2009-003

Material Noncompliance – Estimated Resources Approval

Ohio Revised Code Section 5705.36 – On or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources available for expenditures from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year. The Village did not have Council approval of the 2009 estimated resources. The Village should approve their estimated resources by the required date.

Client Response: We have noted this deficiency and will immediately take steps to ensure future compliance.

Finding Number 2009-004

Material Noncompliance – Appropriations in Excess of Estimated Resources

Ohio Revised Code Section 5705.39, states in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. In 2009 the estimated resources were not approved by council therefore all appropriations were in excess. The Village should approve their estimated resources by the required date and also monitor funds throughout the year to ensure appropriations do not exceed estimated resources.

Client Response: With a full understanding of the requirements for preparing and filing estimated resources, the fiscal officer's office will complete estimated resources in a timely manner and ensure appropriations to not exceed estimated resources going forward.

Finding Number 2009-005

Material Noncompliance – Expenditures in Excess of Appropriations

Ohio Revised Code Section 5705.41(B) states, that no subdivision or taxing unit is to expend money unless it has been appropriated. In 2008 and 2009 there were funds that expenditures exceed the appropriations. The Fiscal Officer should deny expenditures exceeding the appropriations or follow the requirements to increase the appropriations.

Client Response: With a better understanding of the specific rules on this item, we have note the deficiency and will take immediate steps to monitor and adjust appropriations as necessary. Note as well that the Fiscal Officer has a monitoring process already in place (as of 2009) to monitor expenditures vs. appropriations at a sub-fund level, and will use this process to address this requirement.

**VILLAGE OF MECHANICSBURG
CHAMPAIGN COUNTY**

Schedule of Findings and Responses
For the Fiscal Years Ended December 31, 2009 and 2008

Finding Number 2009-006

Significant Deficiency – Prior Period Adjustment

Prior Period misstatements were identified during the course of the audit which were not prevented or detected by the Village's internal controls over financial reporting. These misstatements were corrected in the accompanying financial statements.

The Village should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported.

Client Response: We believe the events leading to a need for these prior period adjustments no longer exist and will not be required going forward. Adequate reviews and accounting procedures are in place to ensure adequate financial statements.

**VILLAGE OF MECHANICSBURG
CHAMPAIGN COUNTY**

**Schedule of Prior Audit Findings
Years Ended December 31, 2009 and 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2007-001	Citation ORC 5705.41(D) – Prior Certification of Expenditures	No	Reissued as 2009-001
2007-002	Citation ORC 5705.14, 5705.15, 5705.16 – Inter-fund Transfers	No	Partially Corrected issued in the Management Letter
2007-003	Citation ORC 149.351(A) – Public Property	Yes	
2007-004	Significant Deficiency – Record Retention	No	Reissued as 2009-002
2007-005	Material Weakness – Approval of Invoices	Yes	
2007-006	Material Weakness – Incomplete Bank Reconciliations	Yes	
2007-007	Material Weakness – Village Council Fiduciary Responsibility and Maintenance of Financial Records	Yes	
2007-008	Material Weakness – Internal Controls	Yes	



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
DECEMBER 21, 2010**