



# Balestra, Harr & Scherer, CPAs, Inc.

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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## VILLAGE OF MECHANICSBURG CHAMPAIGN COUNTY

### REGULAR AUDIT

For the Years Ended December 31, 2011 and 2010  
Fiscal Years Audited Under GAGAS: 2011 and 2010





# Dave Yost • 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, 2010 through December 31, 2011. 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. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

## **Finding for Recovery – Utility Petty Cash**

**State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951)**, provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. **Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose** states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect. The Village of Mechanicsburg Former Utility Clerk, Beth Lewis was responsible for the expenditures of the petty cash account maintained within the Utility Department. The Village petty cash account, during the period of January 1, 2010 to December 31, 2011, covered for cash drawer shortages and had non-supported items in the amount of \$194 in 2010 and \$280 in 2011. Without appropriate documentation, it is not possible to determine if the petty cash expenditures were made for a proper public purpose.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Beth Lewis, Former Utility Clerk in the amount of \$474 and in favor of the Village of Mechanicsburg.

Village Council  
Village of Mechanicsburg  
18 North Main Street  
Mechanicsburg, Ohio 43044  
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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 black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost  
Auditor of State

June 24, 2013

Village of Mechanicsburg  
Champaign County  
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# Balestra, Harr & Scherer, CPAs, Inc.

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## 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, 2011 and 2010. 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.

Except as described in the fourth following paragraph, 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*. 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 our audit provides a reasonable basis for our opinion.

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 the Village's larger (i.e. major) funds separately. 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 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 third following paragraph.

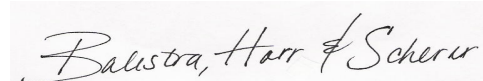
In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2011 and 2010 or its changes in financial position, or cash flows, where applicable for the years then ended.

Because of the inadequacy of the accounting records for the years ended December 31, 2011 and 2010, we were unable to satisfy ourselves as to the completeness or occurrence of utility deposit receipts as recorded in the accompanying combined statement of cash receipts, cash disbursements, and changes in fund cash balances for the proprietary fund types and similar fiduciary funds at December 31, 2011 and 2010 (stated at \$619,678 and \$624,157, respectively).

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about the completeness and occurrence of utility deposit receipts as described in the preceding paragraph for the years ended December 31, 2011 and 2010, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances as of December 31, 2011 and 2010 and reserves for encumbrances as of December 31, 2010 of the Village of Mechanicsburg, Champaign County, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 10, during 2011 the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2012 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.



Balestra, Harr & Scherer, CPAs, Inc.  
July 30, 2012



VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
<b>Cash Receipts:</b>				
Local Taxes	\$ 35,521	\$ 64,884	\$ -	\$ 100,405
Municipal Income Taxes	308,840	-	-	308,840
Intergovernmental	78,506	77,415	50,000	205,921
Gifts and Donations	200	1,339	-	1,539
Charges for Services	-	204,255	-	204,255
Fines, Licenses, and Permits	27,983	-	-	27,983
Interest	1,021	377	0	1,398
Miscellaneous	14,966	16,419	-	31,385
Total Cash Receipts	<u>467,037</u>	<u>364,689</u>	<u>50,000</u>	<u>881,726</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	191,025	82	-	191,107
Security of Persons and Property	243,066	318,427	-	561,493
Basic Utility Service	13,968	-	-	13,968
Transportation	-	96,771	-	96,771
Capital Outlay	-	-	38,273	38,273
Total Cash Disbursements	<u>448,059</u>	<u>415,280</u>	<u>38,273</u>	<u>901,612</u>
Excess of Receipts Over/(Under) Disbursements	18,978	(50,591)	11,727	(19,886)
<b>Other Financing Receipts (Disbursements):</b>				
Proceeds from Debt	-	-	-	-
Transfers-In	-	16,760	-	16,760
Transfers-Out	(16,760)	-	-	(16,760)
Total Other Financing Receipts (Disbursements)	<u>(16,760)</u>	<u>16,760</u>	<u>-</u>	<u>-</u>
Net Change in Fund Cash Balances	2,218	(33,831)	11,727	(19,886)
Fund Cash Balances, January 1	<u>360,363</u>	<u>101,999</u>	<u>(7,965)</u>	<u>454,397</u>
<b>Fund Cash Balances, December 31</b>				
Restricted	-	68,168	3,762	71,930
Assigned	52,834	-	-	52,834
Unassigned (Deficit)	309,747	-	-	309,747
Fund Cash Balances, December 31	<u>\$ 362,581</u>	<u>\$ 68,168</u>	<u>\$ 3,762</u>	<u>\$ 434,511</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  
CHANGES IN FUND CASH BALANCES  
PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>	<b>Totals (Memorandum Only)</b>
<b>Operating Cash Receipts:</b>			
Charges for Services	619,678	\$ -	\$ 619,678
Other Operating Receipts	13,257	-	13,257
Total Operating Cash Receipts	632,935	-	632,935
<b>Operating Cash Disbursements:</b>			
Personal Services	174,571	-	174,571
Contractual Services	37,135	-	37,135
Supplies and Materials	235,599	-	235,599
Total Operating Cash Disbursements	447,305	-	447,305
Operating Income	185,630	-	185,630
<b>Non-operating Cash Receipts:</b>			
Proceeds from Debt	768,043	-	768,043
Capital Grants and Contributions	51,825	-	51,825
Other Non-operating Cash Receipts	-	19,452	19,452
Total Non-operating Cash Receipts	819,868	19,452	839,320
<b>Non-operating Cash Disbursements:</b>			
Redemption of Principal	(68,294)	-	(68,294)
Interest and Fiscal Charges	(15,685)	-	(15,685)
Capital Outlay	(831,911)	-	(831,911)
Other Non-operating Cash Disbursements	-	(22,160)	(22,160)
Total Non-operating Cash Disbursements	(915,890)	(22,160)	(938,050)
Net Receipts Over/(Under) Disbursements	89,608	(2,708)	86,900
Fund Cash Balances, January 1	332,703	20,249	352,952
<b>Fund Cash Balances, December 31</b>	<b>\$ 422,311</b>	<b>\$ 17,541</b>	<b>\$ 439,852</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  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Local Taxes	\$ 44,543	\$ 61,898	\$ -	\$ 106,441
Municipal Income Taxes	301,256	-	-	301,256
Intergovernmental	79,852	82,737	100,000	262,589
Gifts and Donations	50	2,785	-	2,835
Charges for Services	-	218,217	-	218,217
Fines, Licenses, and Permits	27,912	-	-	27,912
Interest	1,002	386	-	1,388
Miscellaneous	9,811	6,212	-	16,023
	<u>464,426</u>	<u>372,235</u>	<u>100,000</u>	<u>936,661</u>
<b>Total Cash Receipts</b>				
<b>Cash Disbursements:</b>				
Current:				
General Government	206,396	-	-	206,396
Security of Persons and Property	248,034	327,273	-	575,307
Basic Utility Service	13,148	-	-	13,148
Transportation	-	93,856	-	93,856
Capital Outlay	-	-	163,224	163,224
	<u>467,578</u>	<u>421,129</u>	<u>163,224</u>	<u>1,051,931</u>
<b>Total Cash Disbursements</b>				
Excess of Receipts Over/(Under) Disbursements	(3,152)	(48,894)	(63,224)	(115,270)
<b>Other Financing Receipts (Disbursements):</b>				
Transfers-In	-	33,700	-	33,700
Transfers-Out	(33,700)	-	-	(33,700)
	<u>(33,700)</u>	<u>33,700</u>	<u>-</u>	<u>-</u>
<b>Total Other Financing Receipts (Disbursements)</b>				
Net Change in Fund Cash Balances	(36,852)	(15,194)	(63,224)	(115,270)
Fund Cash Balances, January 1	<u>397,215</u>	<u>117,193</u>	<u>55,259</u>	<u>569,667</u>
<b>Fund Cash Balances, December 31</b>	<u>\$ 360,363</u>	<u>\$ 101,999</u>	<u>\$ (7,965)</u>	<u>\$ 454,397</u>
Reserve for Encumbrances, December 31	<u>\$ 8,127</u>	<u>\$ 12,320</u>	<u>\$ -</u>	<u>\$ 20,447</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  
CHANGES IN FUND CASH BALANCES  
PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>	<u>Totals (Memorandum Only)</u>
<b>Operating Cash Receipts:</b>			
Charges for Services	\$ 624,157	\$ -	\$ 624,157
Other Operating Receipts	21,580	-	21,580
Total Operating Cash Receipts	645,737	-	645,737
<b>Operating Cash Disbursements:</b>			
Personal Services	165,464	-	165,464
Contractual Services	46,689	-	46,689
Supplies and Materials	211,891	-	211,891
Total Operating Cash Disbursements	424,044	-	424,044
Operating Income	221,693	-	221,693
<b>Non-operating Cash Receipts:</b>			
Capital Grants and Contributions	68,300	-	68,300
Proceeds from Debt	185,941	-	185,941
Other Non-operating Cash Receipts	-	22,387	22,387
Total Non-operating Cash Receipts	254,241	22,387	276,628
<b>Non-operating Cash Disbursements:</b>			
Redemption of Principal	(90,724)	-	(90,724)
Interest and Fiscal Charges	(18,922)	-	(18,922)
Capital Outlay	(255,896)	-	(255,896)
Other Non-operating Cash Disbursements	-	(22,759)	(22,759)
Total Non-operating Cash Disbursements	(365,542)	(22,759)	(388,301)
Net Receipts Over/(Under) Disbursements Before Transfers	110,392	(372)	110,020
Transfers-In	43,987	-	43,987
Transfers-Out	(43,987)	-	(43,987)
Total Transfers	-	-	-
Net Receipts Over/(Under) Disbursements	110,392	(372)	110,020
Fund Cash Balances, January 1	222,311	20,621	242,932
<b>Fund Cash Balances, December 31</b>	<u>\$ 332,703</u>	<u>\$ 20,249</u>	<u>\$ 352,952</u>
Reserve for Encumbrances, December 31	<u>\$ 11,138</u>	<u>\$ -</u>	<u>\$ 11,138</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, 2011 and 2010**

**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. Accounting Basis**

These financial statements follow the accounting basis the Auditor of State prescribes or permits. The basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements 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 the Auditor of State prescribes or permits.

**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, 2011 and 2010  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**D. Fund Accounting (Continued)**

**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.

*OWDA Debt Service Fund-* This fund is used to pay outstanding OWDA debt.

**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.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2011 and 2010  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**E. Budgetary Process (Continued)**

**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.

**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. The Village did not encumber all commitments as required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentation for material items that should have been encumbered.

A summary of 2011 and 2010 budgetary activity appears in Note 3.

**F. Fund Balance**

For December 31, 2011, fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Nonspendable**

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**2. Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**3. Committed**

Village Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless Village Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2011 and 2010  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**F. Fund Balance (Continued)**

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**G. Property, Plant and Equipment**

The Village records disbursements for acquisition of property, plant and equipments when paid. The accompanying financial statements do not report these items as assets.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. Equity in Pooled Cash and Investments**

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

	<b>2011</b>	<b>2010</b>
<b>Demand Deposits</b>	\$869,921	\$802,947
<b>Certificates of Deposit</b>	4,442	4,402
<b>Total Deposits</b>	\$874,363	\$807,349

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution of the Village.



**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2011 and 2010  
(Continued)**

**3. Budgetary Activity**

Budgetary activity for the year ending December 31, 2011 and 2010 as follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 414,000	\$ 467,037	\$ 53,037
Special Revenue	373,130	381,449	8,319
Capital Projects	-	50,000	50,000
Enterprise	1,295,803	1,452,803	157,000
Agency	28,000	19,452	(8,548)
Total	<u>\$ 2,110,933</u>	<u>\$ 2,370,741</u>	<u>\$ 259,808</u>

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 451,677	\$ 517,653	\$ (65,976)
Special Revenue	409,181	418,959	(9,778)
Capital Project	60,087	38,273	21,814
Enterprise	1,408,628	1,394,347	14,281
Agency	29,500	22,160	7,340
Total	<u>\$ 2,359,073</u>	<u>\$ 2,391,392</u>	<u>\$ (32,319)</u>

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 490,775	\$ 464,426	\$ (26,349)
Special Revenue	187,000	405,935	218,935
Capital Project	-	100,000	100,000
Enterprise	666,983	943,965	276,982
Agency	29,000	22,387	(6,613)
Total	<u>\$ 1,373,758</u>	<u>\$ 1,936,713</u>	<u>\$ 562,955</u>

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 447,468	\$ 509,405	\$ (61,937)
Special Revenue	391,425	433,449	(42,024)
Capital Project	-	163,224	(163,224)
Enterprise	658,703	844,711	(186,008)
Agency	28,226	22,759	5,467
Total	<u>\$ 1,525,822</u>	<u>\$ 1,973,548</u>	<u>\$ (447,726)</u>

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2011 and 2010  
(Continued)**

**3. Budgetary Activity (continued)**

For 2011, the differences between the budgetary basis and the cash basis are outstanding year-end encumbrances treated as cash disbursements (budgetary basis) rather than as reservations of fund balance (cash basis). The encumbrances outstanding at year-end (budgetary basis) amounted to \$52,834 for the General Fund, \$3,679 for the Special Revenue Funds.

**4. Property Tax**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopted the tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If property owner elects to pay semiannually, the first half is due December 31. The second half payment is due to 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. Debt**

Debt outstanding at December 31, 2011 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Water System Improvement Bond	\$ 77,245	4.10%
OWDA Elevated Storage Tank Loan	276,158	5.01%
OWDA WWTP Improvements Design	324,951	4.34%
OWDA WTS Improvements Design	58,384	4.34%
OWDA Influent Lift Station	516,948	1.50%
Total	<u>\$ 1,253,686</u>	

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2011 and 2010  
(Continued)**

**6. Debt (Continued)**

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 \$316,661 with an interest rate of 5.01%. As of December 31, 2011, the Village has an outstanding balance on the loan of \$276,158.

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, 2011, the Village has an outstanding balance on the loan of \$77,245.

During 2010, the Village entered into a loan agreement with the Ohio Water Development Authority for improvements to the Waste Water Treatment Plant. The total loan amount was for \$411,988 with an interest rate of 4.34%. As of December 31, 2011, the Village has an outstanding balance on the loan of \$324,951. During 2011, OWDA made an adjustment to the principal balance reducing it by \$38,000.

During 2010, the Village entered into a loan agreement with the Ohio Water Development Authority for improvements to the Water Treatment System. The total loan amount was for \$235,391 with an interest rate of 4.34%. As of December 31, 2011, the Village has an outstanding balance on the loan of \$58,384.

During 2011, the Village entered into a loan agreement with the Ohio Water Development Authority for improvements to the Influent Lift Station. The total loan amount was for \$516,948 with an interest rate of 1.50%. As of December 31, 2011, the Village has an outstanding balance on the loan of \$516,948.

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

Year Ending December 31,	OWDA Principal Amount	OWDA Interest Amount	Total OWDA Payments	Bond Principal Amount	Bond Interest Amount	Total Bond Payments
2012	\$ 8,623	\$ 13,729	\$ 22,352	\$ 17,002	\$ 3,167	\$ 20,169
2013	9,061	13,291	22,352	19,327	2,470	21,797
2014	9,520	12,832	22,352	20,135	1,678	21,813
2015	10,003	12,349	22,352	20,781	852	21,633
2016	10,511	11,841	22,352	-	-	-
2017-2021	61,112	50,648	111,760	-	-	-
2022-2026	78,267	33,493	111,760	-	-	-
2027-2031	89,061	11,523	100,584	-	-	-
<b>Total Loans</b>	<b><u>\$ 276,158</u></b>	<b><u>\$ 159,706</u></b>	<b><u>\$ 435,864</u></b>	<b><u>\$ 77,245</u></b>	<b><u>\$ 8,167</u></b>	<b><u>\$ 84,412</u></b>

The OWDA Loans for Waste Water Treatment Plant Improvement Design, Water Treatment System Improvements Design, and Influent Lift Station have not been fully drawn out as of December 31, 2011. As such, final amortization schedules are not available for these loans.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2011 and 2010  
(Continued)**

**7. 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 plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2010; however, the Village has only paid 87% of required contributions for 2011.

**8. Risk Management**

Prior to 2009, the Village belonged 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 Ohio governments ("Members"). The Plan was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management ("OPRM"), are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (40% through November 1, 2011 and 17.5% through October 31, 2010) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 782 and 761 members as of December 31, 2011 and 2010 respectively. The Village participates in this coverage.

The Plan formed the Ohio Plan Healthcare Consortium ("OPHC"), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member's healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2011 and 2010  
(Continued)**

**8. Risk Management (Continued)**

Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of-pocket maximums. OPHC had 74 and 65 members as of December 31, 2011 and 2010 respectively. The Village does not participate in this coverage.

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.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform to generally accepted accounting principles, and reported the following assets, liabilities, and retained earnings at December 31, 2011 and 2010 and include amounts for both OPRM and OPHC:

	2011		2010	
	<u>OPRM</u>	<u>OPHC</u>	<u>OPRM</u>	<u>OPHC</u>
Assets	\$12,501,280	\$1,459,791	\$12,036,541	\$1,355,131
Liabilities	<u>(5,328,761)</u>	<u>(1,283,527)</u>	<u>(4,845,056)</u>	<u>(1,055,096)</u>
Member's Equity	<u>\$7,172,519</u>	<u>\$176,264</u>	<u>\$7,191,485</u>	<u>\$300,035</u>

You can read the complete audited financial statements for OPRM and OPHC at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**9. Compliance**

Contrary to the Ohio Revised Code section 5705.41(D)(1), the Village did not properly encumber funds prior to them being expended. Contrary to the Ohio Revised Code section 5705.36(A)(4), the Village had appropriations in excess of actual resources. Contrary to the Ohio Revised Code section 5705.41(B), the Village had expenditures that exceeded appropriations. Contrary to the Ohio Revised Code section 5705.39 the Village had unencumbered balances plus actual receipts that were less than appropriated amounts. Contrary to Ohio Revised Code Section 5705.10, the Village had a negative fund balance. Contrary to Ohio Revised Code Section 145, the Village did not pay out retirement withholdings or the employer share to OPERS for some of its employees.

**10. Change in Accounting Principle and Fund Balances**

For fiscal year 2011, the Village implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on the fund balance for the fund types are presented below for December 31, 2011:

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
Notes to the Financial Statements  
December 31, 2011 and 2010  
(Continued)**

**10. Change in Accounting Principle and Fund Balances (Continued)**

Fund Balances	General Fund	Special Revenue Funds	Capital Project Funds	Total
<b>Restricted for</b>				
State Highway	\$ -	\$ 23,310	\$ -	\$ 23,310
Street	-	17,348	-	17,348
Special Events	-	57	-	57
Fire/EMS	-	10,241	-	10,241
Mayor's Court Computer	-	13,189	-	13,189
Law Enforcement	-	4,023	-	4,023
Capital Projects	-	-	3,762	3,762
Total Restricted	-	68,168	3,762	71,930
<b>Assigned</b>	52,834	-	-	52,834
<b>Unassigned (Deficit)</b>	309,747	-	-	309,747
Total Fund Balances	\$ 362,581	\$ 68,168	\$ 3,762	\$ 434,511

**11. Prior Period Restatement**

In previous years the OWDA Debt Service Fund was incorrectly reported as a Governmental Fund. This fund should have been reported as a Proprietary Fund as all activity of this fund was related to water and sewer activities. This restatement had no effect on fund balances at January 1, 2010.



## Balestra, Harr & Scherer, CPAs, Inc.

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

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, 2011 and 2010, and have issued our report thereon dated July 30, 2012 wherein we noted that the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America, that the Village implemented Governmental Accounting Standards Board Statement No. 54 during 2011, and that we were unable to satisfy ourselves as to the completeness or occurrence of the Village utility deposit receipts for the years ended December 31, 2011 and 2010. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and other deficiencies we consider to be significant deficiencies.

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 a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-005 through 2011-007 described in the accompanying schedule of findings to be material weaknesses.

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. We consider findings 2011-002 and 2011-009 described in the accompanying schedule of findings to be significant deficiencies.

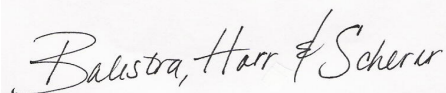
### **Compliance and Other Matters**

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 are described in the accompanying schedule of findings as items 2011-001, 2011-003, 2011-004, 2011-006, 2011-008 and 2011-010.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated July 30, 2012.

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



Balestra, Harr & Scherer, CPAs, Inc.  
July 30, 2012



**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

**FINDING NUMBER 2011-001**

**Material Non-Compliance – Obligation of Funds**

Ohio Revised Code section 5705.41 (D) (1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Section 5705.41(D)(1) and 5705.41(D)(3) , respectively, of the Ohio Revised Code.

1. "Then and Now" Certificate – if the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("Now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment or ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. Blanket Certificate – Fiscal Officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Village's Fiscal Officer did not certify the availability of funds prior to making commitments for 35% and 17% of the disbursements tested for 2010 and 2011, respectively. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

The Village's Fiscal Officer should certify the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language Ohio Rev. Code section 5705.41(D) requires Villages to authorize disbursements.

**Client Response:**

The Village Fiscal Officer, in 2009, revised and re-communicated the Purchase Order process, including a memo explaining the importance of the process, and implementing a new PO request form. The Village believes this process is effective and has been followed consistently since that time. Any discrepancies in the process are believed by the Village to be isolated issues. The Fiscal Officer, Clerk and Village Administrator commit to even better enforcement of these procedures, in part by meeting with each department head.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

**FINDING NUMBER 2011-002**

**Significant Deficiency – Record Retention**

We noted that Village did not retain adequate support for several of the petty cash expenditures tested in 2010 and 2011. We also noted that the Village does not maintain personnel files for each employee. 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, as well as employee files to document retirement and tax withholding elections.

**Client Response:**

The Village will immediately begin regular audit and record-keeping of the petty cash fund.

**FINDING NUMBER 2011-003**

**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 2011 the appropriations were in excess of the estimated resources in the OWDA Debt Service Fund and CDBG Grant Fund by \$94,600 and \$60,000, respectively. In 2010 the appropriations were in excess of the estimated resources in the Fire Fund by \$151,597. The Village should monitor their estimated resources throughout the year to ensure appropriations do not exceed estimated resources.

**Client Response:**

The Village currently reviews expenditures against appropriations on a monthly basis, but commits to following procedures to request additional appropriations and obtaining an amended certificate of estimated resources.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

**FINDING NUMBER 2011-004**

**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 2011 expenditures exceed the appropriations in the General, Fire, OWDA Debt Service, and Water funds by \$65,976, \$22,535, \$6,852, and \$64,146, respectively. In 2010 expenditures exceed the appropriations in the General, Fire, OWDA Debt Service, CDBG Grant, and Sewer funds by \$61,937, \$34,981, \$176,335, \$163,224, and \$67,880, respectively. The Fiscal Officer should deny expenditures exceeding the appropriations or follow the requirements to increase the appropriations.

**Client Response:**

The Village currently reviews expenditures against appropriations on a monthly basis, but commits to following procedures to request additional appropriations and obtaining an amended certificate of estimated resources.

**FINDING NUMBER 2011-005**

**Material Weakness – Cash Reconciliation**

We noted that Village employees did not properly reconcile the accounting records to the bank balances. Reconciliation 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 incorrect postings, long outstanding checks, and improper payments. The Village should reconcile the accounting records to the bank balances monthly.

**Client Response:**

It was discovered that the prior Village Clerk was incorrectly performing monthly reconciliations. The new Clerk has learned the proper technique, and the Village Fiscal Officer will review each month's reconciliation and share the report with Council for review.

**FINDING NUMBER 2011-006**

**Material Weakness/Material Noncompliance – Retirement Contributions**

Ohio Revised Code Section 145 requires governments to enroll most of their employees in the appropriate retirement system, and to withhold from the employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined and to pay over to the appropriate system the amounts withheld, matched with an appropriate percentage of employer matching contributions. In 2011, we noted that the Village was not properly calculating, withholding, or paying in the retirement contribution for several of the new employees hired. The Village should implement controls to ensure that retirement is being properly calculated, withheld, and paid in on behalf of the employees.

**Client Response:**

It was discovered that the Village's prior Clerk, no longer with the Village, had incorrectly entered several employees into our payroll system, causing this error. In 2012, our Village Administrator and new Clerk conducted an exhaustive search to discover all of these errors, understand the steps to correct, and has since reported back pay to OPERS and has paid applicable contributions, interest and penalties.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

**FINDING NUMBER 2011-007**

**Material Weakness – Utility Deposits**

We noted that Village did not properly track the deposits held on account for new utility services, and it was also noted that some deposits were unaccounted for. The Village must account for and deposit with the financial institution all deposits received, using a written receipt, at a minimum. Tracking of the utility deposit account balance is imperative to ensure that deposits are maintained for the regulated time period and returned to the proper customer, per the Village Ordinance. The Village should implement controls to monitor the deposits held and returned for each customer, as well as controls to ensure the proper accounting for and receipt of deposits.

**Client Response:**

The Village believes that the new utility software system, which went live August 2012, will significantly aid in tracking and monitoring customer deposits. In addition, we will look to track these deposit receipts and disbursements separately as a check and balance.

**FINDING NUMBER 2011-008**

**Material Noncompliance – Appropriations in Excess of Actual Resources**

Ohio Revised Code Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources (defined as beginning unencumbered fund balance plus actual receipts) below the current level of appropriation. In 2011 appropriations exceed the actual resources in the OWDA Debt Service and CDBG Grant funds by \$94,600 and \$68,052. The Fiscal Officer should monitor the estimated resources in comparison to the actual resources received, and when it becomes apparent that the level of appropriation will exceed the resources available, request amended certificates of estimated resources, as well as amending appropriations.

**Client Response:**

Flow through money for this grant was placed in a different Debt Service fund than it was paid out of, resulting in a negative fund balance. As a whole, we believe debt service funds and debt line items accurately reflected flow-through grant proceeds and debt payments, but as a Village, our front office will be sure to better match debt service inflows, outflows and transfers to accurately reflect debt activity and avoid negative fund balances. While the Capital Projects Fund was used as a flow through Hardware Store grant, with receipts and disbursements matching over a 2 year period, the Village agrees that on a calendar year basis, an amended appropriation certificate must be obtained.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

**FINDING NUMBER 2011-009**

**Significant Deficiency – Employee Timecards**

We noted that Village did not have approval by supervisory staff of all time worked for each employee. Accuracy of timecards is essential to ensure proper pay for each employee. Discrepancies in time keeping can cause payroll to be miscalculated, and in turn cause employees to be paid incorrect amounts. The Village should require all timecards to be reviewed by supervisory staff to ensure accuracy in the hours reported as worked.

**Client Response:**

We believe this discrepancy was a very isolated case and are comfortable with our timecard review and signoff procedures. We will, however, revisit the timecard review process with each department supervisor.

**FINDING NUMBER 2011-010**

**Material Noncompliance – Negative Fund Balance**

Ohio Revised Code Section 5705.10, states in part that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund. The OWDA Debt Service Fund had a negative fund balance of \$35,782 at December 31, 2011. The CDBG Grant Fund had a negative fund balance of \$11,728 at December 31, 2010. The Village should closely monitor all expenditures to ensure that they are properly encumbered and accounted for in the correct fund.

**Client Response:**

Flow through money for this grant was placed in a different Debt Service fund than it was paid out of, resulting in a negative fund balance. As a whole, we believe debt service funds and debt line items accurately reflected flow-through grant proceeds and debt payments, but as a Village, our front office will be sure to better match debt service inflows, outflows and transfers to accurately reflect debt activity and avoid negative fund balances.

**VILLAGE OF MECHANICSBURG  
CHAMPAIGN COUNTY  
DECEMBER 31, 2011 AND 2010**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2009-001	ORC Section 5705.41(D) Fiscal Officer's certification of available funds for disbursement	No	Reissued as 2011-001
2009-002	Significant Deficiency – Record retention	No	Reissued as 2011-002
2009-003	ORC Section 5705.36 – Certification of total amount available for expenditure	Yes	
2009-004	ORC Section 5705.39 – Appropriations in excess of estimated resources.	No	Reissued as 2011-003
2009-005	ORC Section 5705.41(B) Expenditures in excess of appropriations	No	Reissued as 2011-004
2009-006	Significant Deficiency – Prior period adjustments	Yes	



# Dave Yost • 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  
JULY 9, 2013**