

Village of Manchester

Adams County, Ohio

Regular Audit

January 1, 2003 Through December 31, 2004

Fiscal Year Audited Under GAGAS: 2003 & 2004



BALESTRA, HARR & SCHERER
CERTIFIED PUBLIC ACCOUNTANTS
528 S. WEST STREET, P.O. Box 687
PIKETON, OHIO 45661

TELEPHONE (740) 289-4131

FAX (740) 289-3639

www.bhscpas.com



**Auditor of State
Betty Montgomery**

Village Council
Village of Manchester
400 Pike Street
Manchester, Ohio 45144

We have reviewed the *Independent Auditors' Report* of the Village of Manchester, Adams County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2003 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 25, 2006

This Page is Intentionally Left Blank.

Village of Manchester
Adams County

TABLE OF CONTENTES

TITLE

Independent Auditor’s Report.....1

Combined Statement of Cash Receipts, Cash Disbursements, and Changes in
Fund Cash Balances – All Governmental Fund Types –
For the Year Ended December 31, 2004.....3

Combined Statement of Cash Receipts, Cash Disbursements, and Changes in
Fund Cash Balances – Proprietary Fund Type and Agency Fund –
For the Year Ended December 31, 2004.....4

Combined Statement of Cash Receipts, Cash Disbursements, and Changes in
Fund Cash Balances – All Governmental Fund Types –
For the Year Ended December 31, 2003.....5

Combined Statement of Cash Receipts, Cash Disbursements, and Changes in
Fund Cash Balances – Propriety Fund Type and Agency Fund –
For Year Ended December 31, 2003.....6

Notes to the Financial Statements.....7

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*14

Schedule of Findings.....15

Schedule of Prior Audit Findings.....20

This Page is Intentionally Left Blank.

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditors' Report

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Manchester, Adams County, Ohio, (the Village) as of and for the years ended December 31, 2004 and 2003. 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 Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As 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.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e., major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State 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 year ended December 31, 2004, 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, 2004, or its changes in financial position or cash flows of its proprietary funds for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village, as of the December 31, 2004 and 2003, and its combined cash receipts and disbursements and reserve for encumbrances for the years then ended on the accounting basis Note 1 describes.

As described in Note 8 to the financial statements, the Village has been declared in a state of fiscal emergency under Ohio Law.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. 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 November 3, 2005, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Balestra, Harr & Scherer, CPAs, Inc.
November 3, 2005

VILLAGE OF MANCHESTER
ADAMS COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004

	GOVERNMENTAL FUND TYPES			Totals (Memorandum Only)
	General	Special Revenue	Debt Service	
Cash Receipts				
Local Taxes	\$34,847	\$26,515	\$0	\$61,362
Municipal Income Taxes	48,852	0	0	48,852
Intergovernmental Receipts	109,423	149,724	0	259,147
Charges for Services	9,756	0	0	9,756
Fines, Licenses and Permits	35,375	2,940	0	38,315
Interest	73	0	0	73
Miscellaneous	7,291	12,149	0	19,440
Total Cash Receipts	245,617	191,328	0	436,945
Cash Disbursements				
Current				
Security of Persons and Property	22,605	203,185	0	225,790
Public Health Services	3,486	851	0	4,337
Leisure Time Activities	36,878	0	0	36,878
General Government	87,383	0	0	87,383
Community Environment	14,894	0	0	14,894
Transportation	0	65,358	0	65,358
Principal Payment	0	2,215	0	2,215
Interest and Fiscal Charges	0	145	0	145
Total Cash Disbursements	165,246	271,754	0	437,000
Total Receipts Over/(Under) Disbursements	80,371	(80,426)	0	(55)
Other Financing Sources (Uses):				
Transfers - In	0	79,000	0	79,000
Transfers - Out	(79,000)	0	0	(79,000)
Total Other Financing Sources (Uses)	(79,000)	79,000	0	0
Excess of Receipts and Other Financing Sources Over/(Under) Disbursements and Other Uses	1,371	(1,426)	0	(55)
Fund Cash Balances, January 1, 2004	(20,504)	42,099	(8,213)	13,382
Fund Cash Balances, December 31, 2004	(19,133)	\$40,673	(\$8,213)	\$13,327
Reserve for Encumbrances, December 31, 2004	\$4,713	\$2,387	\$0	\$7,100

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

VILLAGE OF MANCHESTER
ADAMS COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

	PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPE	Totals (Memorandum Only)
	Enterprise	Agency	
Cash Operating Receipts			
Charges for Services	\$439,929	\$0	\$439,929
Miscellaneous	2,028	0	2,028
Total Cash Operating Receipts	441,957	0	441,957
Cash Operating Disbursements			
Personal Services	123,269	0	123,269
Employee Fringe Benefits	60,459	0	60,459
Contractual Services	25,408	0	25,408
Supplies and Materials	193,521	0	193,521
Capital Outlay	286,267	0	286,267
Total Cash Operating Disbursements	688,924	0	688,924
Operating Receipts Over/(Under)			
Operating Disbursements	(246,967)	0	(246,967)
Non-Operating Receipts (Disbursements)			
Intergovernmental	370,341	0	370,341
Loan Proceeds	255,573	0	255,573
Redemption of Principal	(44,300)	0	(44,300)
Interest and Other Fiscal Charges	(66,986)	0	(66,986)
Other Financing Sources	0	42,231	42,231
Other Financing Uses	0	(42,231)	(42,231)
Total Non-Operating Receipts (Disbursements)	514,628	0	514,628
Excess of Receipts Over/(Under)			
Disbursements Before Transfers	267,661	0	267,661
Operating Transfers - In	249,048	0	249,048
Operating Transfers - Out	(249,048)	0	(249,048)
Net Receipts Over/(Under) Disbursements	267,661	0	267,661
Fund Cash Balance, January 1, 2004	308,517	6	308,523
Fund Cash Balance, December 31, 2004	\$576,178	\$6	\$576,184
Reserve for Encumbrances, December 31, 2004	\$8,494	\$0	\$8,494

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

VILLAGE OF MANCHESTER
ADAMS COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCE:
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003

	GOVERNMENTAL FUND TYPES			
	General	Special Revenue	Debt Service	Totals (Memorandum Only)
Cash Receipts				
Local Taxes	\$76,776	\$43,457	\$0	\$120,233
Intergovernmental Receipts	135,234	106,732	0	241,966
Charges for Services	10,332	0	0	10,332
Fines, Licenses and Permits	43,556	2,377	0	45,933
Miscellaneous	3,586	2,683	0	6,269
Total Cash Receipts	269,484	155,249	0	424,733
Cash Disbursements				
Current				
Security of Persons and Property	74,693	96,264	0	170,957
Leisure Time Activities	4,458	0	0	4,458
General Government	94,606	0	0	94,606
Community Environment	26,144	0	0	26,144
Basic Utility Service	7,590	0	0	7,590
Transportation	0	67,260	0	67,260
Capital Outlay	84,038	14,560	0	98,598
Debt Service:				
Principal Payment	0	1,851	0	1,851
Total Cash Disbursements	291,529	179,935	0	471,464
Total Receipts Over/(Under) Disbursements	(22,045)	(24,686)	0	(46,731)
Other Financing Sources (Uses):				
Transfers - In	0	0	49	49
Transfers - Out	0	(49)	0	(49)
Loan Proceeds	0	7,500	0	7,500
Total Other Financing Sources (Uses)	0	7,451	49	7,500
Excess of Receipts and Other Financing Sources Over/(Under) Disbursements and Other Uses	(22,045)	(17,235)	49	(39,231)
Fund Cash Balances, January 1, 2003	1,541	59,334	(8,262)	52,613
Fund Cash Balances, December 31, 2003	(\$20,504)	\$42,099	(\$8,213)	\$13,382
Reserve for Encumbrances, December 31, 2003	\$6,753	\$9,488	\$0	\$16,241

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

VILLAGE OF MANCHESTER
ADAMS COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

	PROPRIETARY FUND TYPE	FIDUCIARY FUND TYPE	Totals (Memorandum Only)
	Enterprise	Agency	
Cash Operating Receipts			
Charges for Services	\$453,355	\$0	\$453,355
Miscellaneous	1,949	0	1,949
Total Cash Operating Receipts	<u>455,304</u>	<u>0</u>	<u>455,304</u>
Cash Operating Disbursements			
Personal Services	186,393	0	186,393
Employee Fringe Benefits	0	0	0
Contractual Services	58,329	0	58,329
Supplies and Materials	107,740	0	107,740
Capital Outlay	165,456	0	165,456
Total Cash Operating Disbursements	<u>517,918</u>	<u>0</u>	<u>517,918</u>
Operating Receipts Over/(Under)			
Operating Disbursements	<u>(62,614)</u>	<u>0</u>	<u>(62,614)</u>
Non-Operating Receipts (Disbursements)			
Intergovernmental	163,938	0	163,938
Principal Payments	(54,400)	0	(54,400)
Interest Payments	(52,792)	0	(52,792)
Total Non-Operating Receipts (Disbursements)	<u>56,746</u>	<u>0</u>	<u>56,746</u>
Excess of Receipts Over/(Under)			
Disbursements Before Transfers	(5,868)	0	(5,868)
Operating Transfers - In	99,060	0	99,060
Operating Transfers - Out	(99,060)	0	(99,060)
Other Financing Sources	0	42,783	42,783
Other Financing Uses	0	(42,792)	(42,792)
Net Receipts Over/(Under)			
Disbursements	(5,868)	(9)	(5,877)
Fund Cash Balance, January 1, 2003	<u>314,385</u>	<u>15</u>	<u>314,400</u>
Fund Cash Balance, December 31, 2003	<u>\$308,517</u>	<u>\$6</u>	<u>\$308,523</u>
Reserve for Encumbrances, December 31, 2003	<u>\$7,218</u>	<u>\$0</u>	<u>\$7,218</u>

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Manchester, Adams County, Ohio (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides street maintenance, police protection, park operations, and water and sewer utilities.

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.

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

C. Cash Deposits

The Village maintains all funds in an interest-bearing checking account and certificates of deposit with a local financial institution. The certificates of deposits 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 Fund:

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

Fire Levy Fund – This fund receives tax money to provide fire protection.

Police Levy Fund – This fund receives tax money to provide police protection.

3. Debt Service Funds – These funds are used to accumulate resources for the payment of bonds and note indebtedness (except those accounted for in enterprise funds).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Enterprise Funds – These funds account for operations that are similar to private business enterprises where management intends that the significant cost of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

Water Operating Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Operating Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Debt Fund – This fund is used to accumulate resources for retirement of mortgage revenue bonds from the United State Department of Agriculture.

5. Fiduciary Funds (*Agency Fund*) – Funds for which the Village is acting in an agency capacity are classified as agency funds.

Mayor's Court Fund – This fund accounts for the financial activity of the Mayor's Court.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function and object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

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 are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. Financial statements were adjusted to include encumbrances that should have been recorded at year-end.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

Village of Manchester, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accumulated Leave

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

NOTE 2 – EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash deposits 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:

	2004	2003	
Demand deposits	\$589,511	\$321,905	
Total Deposits	589,511	321,905	

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

NOTE 3 – BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

	<u>2004 Budgeted vs. Actual Receipts</u>		
	Budgeted Receipts	Actual Receipts	Variance
General	\$245,748	\$245,617	(\$131)
Special Revenue	270,325	270,328	3
Enterprise	1,309,327	1,316,919	7,592
Total	\$1,825,400	\$1,832,864	7,464

	<u>2004 Budgeted vs. Actual Budgetary Basis Expenditures</u>		
	Appropriation Authority	Budgetary Expenditures	Variance
General	\$281,286	\$248,959	\$32,327
Special Revenue	291,795	274,141	17,654
Enterprise	1,295,533	1,057,752	237,781
Total	\$1,868,614	\$1,580,852	\$287,762

	<u>2003 Budgeted vs. Actual Receipts</u>		
	Budgeted Receipts	Actual Receipts	Variance
General	\$219,296	\$269,484	\$50,188
Special Revenue	170,841	162,749	(8,092)
Debt Service	189,309	49	(189,260)
Enterprise	663,100	718,302	55,202
Total	\$1,242,546	\$1,150,584	(\$91,962)

Village of Manchester, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2003

NOTE 3 – BUDGETARY ACTIVITY (Continued)

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$183,174	\$298,282	\$(115,108)
Special Revenue	149,600	189,472	(39,872)
Enterprise	487,383	731,388	(244,005)
Total	<u>\$820,157</u>	<u>\$1,219,142</u>	<u>\$(398,985)</u>

Contrary to Ohio Rev. Code, Section 5705.41(B), the Village had expenditures in excess of appropriations in the Police Levy fund in 2004 and the General, Street, State Highway, Fire Levy, Police Levy, Computer, and Water Fund in 2003.

Contrary to Ohio Rev. Code, Section 5705.39, appropriations exceeded estimated resources in the General, Street, Enforcement and Education, Computer, Water Operating, Federal Grants, and Water Treatment Plant in 2004, and Rural Dev. Water Debt, and Water Treatment Plant Funds in 2003.

Contrary to Ohio Rev. Code, Section 5705.10, the Village had negative fund balances in the General, Sewer Assessment, Community Building and Sewer Funds for 2003.

Contrary to Ohio Rev. Code, Section 5705.41(D), the Village did not obtain prior certification of the fiscal officer for all purchases.

NOTE 4 – PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. The second half payment is due the following June 20. Public utilities are also taxed on personal and real property located within the Village.

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

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

Village of Manchester, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2003

NOTE 5 – DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sanitary Sewer System Mortgage Revenue Bonds - Series 1998A and 1998B	\$1,125,200	4.50%
Water System Improvement Bonds	192,200	5.25%
Emergency Village Capital Improvement Special Account (EVCISA) Water Loans	5,000	0.00%
Land Purchase Note	7,800	5.00%
Truck & Traffic Signal Box Loan	3,434	4.25%
Waterworks System Impv. Revenue Bonds	1,854	2.56%
OWDA Mortgage Revenue Bonds	<u>253,719</u>	1.50%
Total	<u>\$1,589,207</u>	

The Series 1998A Sanitary System Mortgage Revenue Bonds were issued in the principal amount of \$975,000, and the Series 1998B Sanitary Sewer System Mortgage Revenue Bonds were issued in the principal amount of \$300,000. The proceeds were issued to repay interim financing on an Ohio Water Development Authority loan which related to a sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. These bonds were purchased by the United States Department of Agriculture – Rural Development. The Series 1998A bonds and 1998B bonds are payable over forty years and twenty years, respectively, from sewer system charges for services receipts.

The Water System Improvement Bonds were issued in 2002 as permanent financing of two bond anticipation notes previously issued to finance water system improvements. The bonds are payable over fifteen years, from water system revenues.

The EVCISA loans were obtained from the Ohio Water Development Authority in 1996 to finance water system improvements. The loans are payable in annual installments from water system revenues.

The Land Purchase Note was issued in 1999 for the purchase of land adjacent to the Village water plant obtained by eminent domain through the court system. The loan was in the principal sum of \$30,000 payable in five equal annual principal installments of \$6,000, plus accrued interest. The loan is being repaid from water system revenues.

The Truck and traffic signal box loan was issued in 2003 in the amount of \$7,500.

The OWDA Loan was issued in 2004 in the amount of \$91,931. As of 12/31/04, \$1,854 has been drawn and utilized on the project. The loan was obtained to finance water system improvements. Payments of principal and interest do not start until the project is completed.

The OWDA Loan was issued in 2004 in the amount of \$963,420. The loan was obtained to finance water system improvements. As of 12/31/04, \$253,719 has been drawn and expended on the project. Payments of principal and interest do not start until the project is completed.

Village of Manchester, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2003

NOTE 5 – DEBT (Continued)

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

Year ending December 31	Sewer Mortgage Revenue Bonds	Water System Improvement Bonds	EVCISA Loans	Land Purchase Note	Truck & Traffic Signal Box	Total
2005	\$ 76,034	\$ 17,384	\$5,000	\$ 6,000	\$ 2,667	\$ 107,085
2006	76,091	17,704		1,800	889	96,484
2007	75,994	17,940				93,934
2008	76,048	18,249				94,297
2009	76,043	18,430				94,473
2010-2014	380,100	96,292				476,392
2015-2019	334,207	61,013				395,220
2020-2024	264,968					264,968
2024-2029	264,954					264,954
2030-2034	264,874					264,874
2035-2039	158,898					158,898
Total	\$2,048,211	\$ 247,012	\$5,000	\$ 7,800	\$ 3,556	\$2,311,579

NOTE 6 – RETIREMENT SYSTEM

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 8.5% of their gross wages. The Village contributed an amount equal to 13.55% of participants’ gross wages for 2004 and 2003. The Village has paid all contributions required through December 31, 2004.

NOTE 7 – RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

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

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

Village of Manchester, Ohio
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2003

NOTE 8 – FISCAL EMERGENCY

The Auditor of State of Ohio declared the Village of Manchester to be in a state of fiscal emergency on September 29, 1997, in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the Village, the Council President, three local financial business professionals and two representatives from the State of Ohio. This Commission approved a financial recovery plan which had been adopted by the Village, and the plan must be updated annually. Once the plan has been adopted, the Village's discretion is limited in that all financial activity of the Village must be in accordance with the plan.

On May 10, 2005, the Financial Planning Commission requested that the Auditor of State determine whether the Village should be released from fiscal emergency. This analysis is ongoing.

NOTE 9 – CONTINGENT LIABILITIES

The Village is defendant in lawsuits. Although the outcome of these suits is not presently determinable, management believes that the resolution of these matters will not materially adversely affect the Village's financial conditions.

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the accompanying financial statements of the Village of Manchester, Adams County, Ohio, (the Village) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated November 3, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2004-005 through 2004-011.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-010 and 2004-011 to be material weaknesses.

Village Council
Village of Manchester
Adams County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2004-001 through 2004-004.

We noted certain matters which we reported to management of the Village in a separate letter dated November 3, 2005.

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



Balestra, Harr & Scherer, CPAs, Inc.
November 3, 2005

**VILLAGE OF MANCHESTER
ADAMS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 5705.10 provides that all money paid into a fund must be used only for purposes for which the fund was established. As a result, negative fund balances indicate that money from one fund was used to cover the expenses of another fund. The Village had negative fund balances in various funds as follows:

<u>Date</u>	<u>Fund</u>	<u>Balance</u>
December 31, 2003	General	(20,504)
	Debt Service	(8,213)
	Community Building	(6,101)
December 31, 2004	Sewer	(37,958)
	General	(19,133)
	Debt Service	(8,213)

We recommend that the Village monitor their fund balances to ensure that funds are used solely for their intended purpose and to prevent negative fund balances.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Rev. Code Section 5705.41 (B), states that no subdivision or taxing unit is to expend money unless it has been appropriated. Expenditures exceeded appropriations in the following funds and fiscal years:

<u>Year</u>	<u>Fund</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
2004	Police Levy	127,219	266,100	(138,881)
2003	General	183,174	291,508	(108,334)
	Street & Main.	66,800	68,334	(1,534)
	State Highway	4,800	6,577	(1,777)
	Fire Levy	42,000	53,304	(11,304)
	Police Levy	36,000	42,959	(6,959)
	Computer Fund	0	1,261	(1,261)
	Water	230,575	323,003	(92,428)

The Clerk-Treasurer should deny payment requests exceeding appropriations. The Clerk-Treasurer may request the Village Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**VILLAGE OF MANCHESTER
ADAMS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-003

Noncompliance Citation

Ohio Revised Code, Section 5705.39, states that the total appropriation from each fund should not exceed the total estimated revenue. Contrary to this section, the Village had total appropriations in excess of estimated resources in the following funds:

Year	Fund	Appropriation Authority	Estimated Resources	Variance
December 31, 2004	General	281,286	245,748	(35,538)
	Street & Main.	86,052	78,520	(7,532)
	Federal Grants	20,940	0	(20,940)
	Enforcement & Edu.	698	402	(296)
	Computer Fund	1,410	1,070	(340)
	Water Operating	493,898	443,214	(50,684)
	Water Treatment Plant	439,788	279,000	(160,788)
December 31, 2003	Rural Dev. Water Debt	12,000	11,795	(205)
	Water Treatment Plant	1,500,000	1,495,000	(5,000)

FINDING NUMBER 2004-004

Noncompliance Citation

Ohio Revised Code, Section 5705.41(D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two exceptions to the above requirements:

- A. Then and Now Certificates – If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contractor order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000 (which was charged to \$3,000 effective April 7, 2003), the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Village Council, if such expenditure is otherwise valid.

Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

Contrary to the above requirement, prior certification was not obtained for 100% of Village disbursements during 2003 and most of the disbursements for 2004, and neither of the two exceptions provided for above were utilized. This resulted in the Village having material unrecorded encumbrances at year end. The financial statements have been adjusted to properly reflect these encumbrances. Failure to certify the availability of funds and encumber appropriations results in overspending funds and negative fund balances. Therefore, we recommend the Village obtain approved purchase orders, which contain the Clerk-Treasurer’s certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

VILLAGE OF MANCHESTER
ADAMS COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003

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

FINDING NUMBER 2004-005

Reportable Condition - Disbursements

We noted the following weaknesses in the controls over Village disbursements:

- Disbursements were not certified as available for expenditure in advance of purchase commitments being made via purchase orders.
- Disbursements were made without supporting documentation, such as a vendor invoice.
- There is no consistent documentation on invoices that a review was performed by individuals who received the goods or services to determine that amounts billed were for items actually received by the Village.
- Vouchers were not consistently signed by Council members as evidence of review and approval.

Lack of an effective control system over the Village's expenditures could result in overspending of funds or unauthorized or inaccurate expenditures occurring. We recommend that the Village take appropriate steps to correct the above-mentioned control weakness.

FINDING NUMBER 2004-006

Reportable Condition - Payroll

The following deficiencies were noted in the Village's payroll:

1. Payroll ledgers were not maintained for all Village officials and employees. Payroll ledgers were maintained for some Village employees, but were not posted accurately. Without the use of or proper posting to a payroll ledger, errors and omissions can result when calculating gross pay and deductions, when remitting withholdings to various agencies, and when preparing W-2's. There were several errors noted on remittances to various agencies, and on amounts reported on employee W-2 Forms.
2. The Village Clerk withheld and remitted PERS during part of the audit period from the Police department employees instead of withholding and remitting to the Ohio Police and Fire Pension Fund. This could result in remittances to retirement agencies being incorrect and difficulties determining benefits upon retirement of employees.
3. The Village did not maintain 941 Quarterly Reports for some of 2003. This could result in non-correct total wages being reported to the Federal Government.
4. The Village did not maintain IT-4 Forms for the employees. This could result in the improper amount being deducted from employees.

We recommend the following:

1. The Village should maintain a payroll ledger which documents gross pay, withholdings, and net pay for all officials and employees. Due care should be exercised in posting these ledgers. The Village should reconcile between amounts withheld from employees and amounts remitted to the appropriated agencies for 2003 and 2004. The Village should also contact the Internal Revenue Service to resolve discrepancies on W-2 Forms.
2. The Village Clerk-Treasurer should enroll employees in the appropriate retirement systems.
3. The Village should maintain copies of all withholding documentation.
4. The Village should obtain completed IT-4 Forms for all employees.

VILLAGE OF MANCHESTER
ADAMS COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003

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

FINDING NUMBER 2004-007

Reportable Condition – Budgetary

Monitoring controls over budgetary compliance have not been placed in operation. The Village Council is not receiving and reviewing monthly financial reports detailing monthly and year-to-date budgetary information and actual receipts and expenditures totals. Additionally, budgeted receipts and appropriations passed throughout the audit period were not properly integrated into the accounting system. Failure to properly post budgeted receipts and appropriations to receipts and appropriations ledgers, respectively, and a lack of Village Council monitoring, results in spending of funds in excess of resources. We recommend that the Clerk-Treasurer properly post budgeted receipts and appropriations to the accounting system and that monthly reports detailing budgetary status be provided to Village Council for review.

FINDING NUMBER 2004-008

Reportable Condition – Utility Department

The following deficiencies exist in the controls over the Village's utilities receipts:

- Adjustments to utility bills due to leaks, pool fills, etc., are not approved in the minutes of the Board of Public Affairs (the "BPA"). The BPA should approve any adjustments and approval should be documented in the minutes. We recommend the BPA adopt a policy regarding adjustments and who has the authority to make them. The Board should adopt a form to be used for this purpose and be signed by authorized personnel.
- Ohio Rev. Code, Chapter 135, does not provide for a Village to have a separate checking account for depositing utility receipts. The Village should close the account and pay all collections into the Village Clerk daily.
- Utility billing reports need to include usage, total amount billed and total number of customers for each type of service provided. These totals would provide the utility department with data to compare to previous month or years and would help detect any large billing errors. This recommendation was made in the last three audits and the software vendor is aware of the issue, however it has not been corrected.

FINDING NUMBER 2004-009

Reportable Condition – Income Tax Collection

The following items were noted during our review of income tax collections:

- There is no documentation on file which documents periodic reviews of income tax collection efforts. This could lead to individuals or businesses within the Village not complying with the income tax ordinance and lost revenues to the Village. We recommend that annual reviews be performed to determine that all individuals and businesses within the Village are complying with the income tax ordinance.
- Tax returns are not on file for all individuals paying the income tax and wage documentation is not on file for all businesses submitting income tax withholdings. Copies of checks received were kept by the Village; however, failure to obtain income tax returns from individuals and wage documentation from businesses could lead to taxes not being paid in accordance with the income tax ordinance. We recommend that the Village require these supporting documents be filed by individuals and businesses to verify that income taxes are being paid in accordance with the income tax ordinance. Copies of checks received were copied and retained on file.

**VILLAGE OF MANCHESTER
ADAMS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</p>

**FINDING NUMBER 2004-009
(Continued)**

- Testing of income tax receipts indicated a couple instances where the posted amount of income tax receipts did not agree to the supporting documentation. We recommend the Clerk-Treasurer use due care when posting income tax receipts to avoid discrepancies.
- Form 1099-G's are not issued for refunds made to taxpayers. These forms should be issued for all refunds of Village income tax overpayments.

FINDING NUMBER 2004-010

Reportable Condition - Material Weakness – Record Keeping

Monthly reconciliations were not performed accurately and in a timely manner during the audit period. The Village's inability to get the books in balance with the bank resulted from several mispostings in the cashbook and several receipts and disbursements which were not posted at all. Failure to post all transactions and to perform monthly reconciliations could lead to unauthorized or inaccurate transactions occurring and going undetected. The Village also incurred additional costs for the audit as these errors were identified and corrected.

VILLAGE OF MANCHESTER
ADAMS COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003

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

FINDING NUMBER 2004-010

(Continued)

Additionally, financial information is provided periodically to Village Council by the Clerk-Treasurer; however, accurate monthly financial reports and reconciliations are not consistently provided to Council by the Clerk-Treasurer and documented in the minutes. The lack of effective monitoring by Village Council also could lead to unauthorized or inaccurate transactions occurring and going undetected.

We recommend that monthly reconciliations be performed accurately and in a timely manner. Monthly reconciliations and monthly financial reports should be provided to Village Council by the Clerk-Treasurer at each regular meeting to facilitate effective monitoring of Village financial activity. Village Council's review of monthly reconciliations and financial reports should be documented in the minutes.

FINDING NUMBER 2004-011

Reportable Condition - Material Weakness – Segregation of Duties

The Clerk-Treasurer handles all financial record-keeping, including receipting and posting. The weakness of this system is that it may allow for diversion of funds through possible alteration of source documents. Also, bookkeeping errors may occur without detection in a timely manner.

To enhance accountability and to strengthen internal accounting controls, officials should periodically review the records, (i.e. reconciliations, etc.) to determine accuracy and to verify that proper procedures were followed by the fiscal officer. We recommend these periodic reviews be noted in the minutes, and the documents reviewed be initialed by the reviewer.

The Village officials did not provide a response to findings number 2004-1 through 2004-13 for inclusion in this report.

**VILLAGE OF MANCHESTER
ADAMS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	Revised Code 733.28, maintaining the books of the Village	Yes	Corrected
2002-002	Revised Code 5705.10, negative fund balance	No	Reissued finding number 2004-001
2002-003	Revised Code 5705.41(B), expenditures exceeded appropriations.	No	Reissued finding number 2004-002
2002-004	Revised Code 5705.39, appropriations exceeding estimated resources.	No	Reissued finding number 2004-003
2002-005	Revised Code 5705.41(D), prior certification of disbursements.	No	Reissued finding number 2004-004
2002-006	Record Keeping	No	Reissued finding number 2004-010
2002-007	Disbursements	No	Reissued finding number 2004-005
2002-008	Payroll	No	Reissued finding number 2004-006
2002-009	Budgetary	No	Reissued finding number 2004-007
2002-010	Segregation of Duties	No	Reissued finding number 2004-011
2002-011	Revised Code 731.13, finding for recovery	Yes	Corrected
2002-012	Revised Code 742.38, Ohio Police & Fire Physical Examinations	Yes	Corrected
2002-013	Reissued Cod 742.38, Police Physical Examinations	Yes	Corrected
2002-014	Revised Code 742.33, Ohio Police and Fire Remittances	Yes	Corrected
2002-015	Police Citation Log	Yes	Corrected
2002-016	Utility Department	No	Reissued finding number 2004-008
2002-017	Income Tax Collection	No	Reissued finding number 2004-009
2002-018	Revised Code 5705.14, Illegal Transfers	Yes	Corrected



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

VILLAGE OF MANCHESTER

ADAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 9, 2006**