



**CHESTER TOWNSHIP
MORROW COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2007-2006



Mary Taylor, CPA
Auditor of State

CHESTER TOWNSHIP
MORROW COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2007	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006.....	6
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17
Schedule of Prior Audit Findings.....	21

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Mary Taylor, CPA
Auditor of State

Chester Township
Morrow County
3627 Ruggles Road 178
Fredericktown, Ohio 43019

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Township 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. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 5, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Chester Township
Morrow County
3627 Ruggles Road 178
Fredericktown, Ohio 43019

To the Board of Trustees:

We have audited the accompanying financial statements of Chester Township, Morrow County, Ohio (the Township), as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township 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 Township's larger (i.e. major) funds separately. While the Township 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 townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2007 and 2006, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Chester Township, Morrow County, Ohio, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township 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 August 5, 2008, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.



Mary Taylor, CPA
Auditor of State

August 5, 2008

**CHESTER TOWNSHIP
MORROW COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>				<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	
Cash Receipts:					
Property and Other Local Taxes	\$ 63,776	\$ 176,156	\$ -	\$ -	\$ 239,932
Licenses, Permits, and Fees	9,651	9,750	-	-	19,401
Intergovernmental	23,076	112,452	-	-	135,528
Earnings on Investments	11,700	4,784	-	703	17,187
Miscellaneous	486	7,700	-	-	8,186
Total Cash Receipts	<u>108,689</u>	<u>310,842</u>	<u>-</u>	<u>703</u>	<u>420,234</u>
Cash Disbursements:					
Current:					
General Government	74,277	-	-	-	74,277
Public Safety	-	37,027	-	-	37,027
Public Works	300	179,075	-	-	179,375
Health	1,951	42,659	-	-	44,610
Capital Outlay	15,652	8,280	-	-	23,932
Debt Service:					
Redemption of Principal	13,040	-	-	-	13,040
Total Cash Disbursements	<u>105,220</u>	<u>267,041</u>	<u>-</u>	<u>-</u>	<u>372,261</u>
Total Receipts Over Disbursements	3,469	43,801	-	703	47,973
Fund Cash Balances, January 1	<u>128,213</u>	<u>225,218</u>	<u>732</u>	<u>25,715</u>	<u>379,878</u>
Fund Cash Balances, December 31	<u>\$ 131,682</u>	<u>\$ 269,019</u>	<u>\$ 732</u>	<u>\$ 26,418</u>	<u>\$ 427,851</u>

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

**CHESTER TOWNSHIP
MORROW COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	
Cash Receipts:					
Property and Other Local Taxes	\$ 62,376	\$ 173,765	\$ -	\$ -	\$ 236,141
Licenses, Permits, and Fees	8,329	8,050	-	-	16,379
Intergovernmental	78,716	113,908	-	-	192,624
Earnings on Investments	7,411	4,365	-	546	12,322
Miscellaneous	73	12,078	-	-	12,151
	<u>156,905</u>	<u>312,166</u>	<u>-</u>	<u>546</u>	<u>469,617</u>
Cash Disbursements:					
Current:					
General Government	53,683	-	-	-	53,683
Public Safety	-	36,922	-	-	36,922
Public Works	44,212	165,107	-	-	209,319
Health	1,603	42,203	-	-	43,806
Capital Outlay	6,000	23,500	-	-	29,500
Debt Service:					
Redemption of Principal	12,419	-	-	-	12,419
Interest and Other Fiscal Charges	1,273	-	-	-	1,273
	<u>119,190</u>	<u>267,732</u>	<u>-</u>	<u>-</u>	<u>386,922</u>
Total Receipts Over Disbursements	<u>37,715</u>	<u>44,434</u>	<u>-</u>	<u>546</u>	<u>82,695</u>
Other Financing Receipts:					
Sale of Fixed Assets	-	6,242	-	-	6,242
	<u>-</u>	<u>6,242</u>	<u>-</u>	<u>-</u>	<u>6,242</u>
Total Other Financing Receipts	<u>-</u>	<u>6,242</u>	<u>-</u>	<u>-</u>	<u>6,242</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	37,715	50,676	-	546	88,937
Fund Cash Balances, January 1 (Restated)	<u>90,498</u>	<u>174,542</u>	<u>732</u>	<u>25,169</u>	<u>290,941</u>
Fund Cash Balances, December 31	<u>\$ 128,213</u>	<u>\$ 225,218</u>	<u>\$ 732</u>	<u>\$ 25,715</u>	<u>\$ 379,878</u>

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

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Chester Township, Morrow County, Ohio (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides general governmental services including road and bridge maintenance and cemetery maintenance. The Township contracts with Big Walnut Fire Department to provide emergency medical and fire protection services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Note 7 to the financial statements provides additional information for this entities. This organization is:

Public Entity Risk Pool:

The Ohio Township Association Risk Management Authority (OTARMA) is a risk sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township 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

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Township values certificates of deposit and U.S. Savings Bonds at cost. Investments in STAR Ohio are recorded at amounts reported by the State Treasurer.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

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

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

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

Cemetery Fund – This fund receives property tax money and fees to maintain and repair Township cemeteries.

Fire District Fund – This fund receives property tax money to provide fire protection and emergency medical services to Township residents.

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Township had the following significant capital project fund:

Township Hall Renovation Fund - The Township receives donations for the restoration of the Township Hall.

4. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Township had the following significant permanent funds:

Cemetery Bequest Funds – These funds receive interest earned on the nonexpendable corpus from trust agreements. These earnings are used for the general maintenance and upkeep of the Township's cemetery, as stated in the trust agreements.

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 Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(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 cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2007 and 2006 budgetary activity appears in Note 4.

F. Property, Plant, and Equipment

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. Restatement of Fund Balance

Fund Balances at December 31, 2005 have been restated to reflect the Expendable Trust Fund balance as a Special Revenue Fund and to reflect the Non-expendable Trust Fund balance as a Permanent Fund at January 1, 2006. Also, certain expenditures totaling \$1,001 made from the Special Revenue Fund in prior years have been voided subsequent to December 31, 2005, causing additional restatement to the Special Revenue Fund. These restatements have had the following effect on the fund balances as previously reported at December 31, 2005:

<u>Fund Type</u>	<u>Balance at December 31, 2005</u>	<u>Restatement Amount</u>	<u>Balance at January 1, 2006</u>
Special Revenue	153,372	21,170	174,542
Expendable Trust	20,169	(20,169)	-
Nonexpendable Trust	25,169	(25,169)	-
Permanent Fund	-	25,169	25,169

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. Equity in Pooled Cash and Investments

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

	2006	2007
Demand Deposits	\$187,697	\$227,662
Certificates of Deposit	36,616	36,616
Total Deposits	224,313	264,278
U.S. Savings Bond	500	500
STAR Ohio	155,065	163,073
Total investments	155,565	163,573
Total deposits and investments	\$379,878	\$427,851

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

Investments: The U.S. Savings Bond is in the name of the Township and the bequest fund. The bond is kept by the fiscal officer in a locked safe.

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

4. Budgetary Activity

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$90,710	\$108,689	\$17,979
Special Revenue	294,810	310,842	16,032
Capital Projects	0	0	0
Permanent	650	703	53
Total	\$386,170	\$420,234	\$34,064

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$156,599	\$105,220	\$51,379
Special Revenue	388,162	267,041	121,121
Capital Projects	0	0	0
Permanent	500	0	500
Total	\$545,261	\$372,261	\$173,000

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

4. Budgetary Activity (Continued)

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$215,435	\$156,905	(\$58,530)
Special Revenue	321,762	318,408	(3,354)
Capital Projects	200	0	(200)
Permanent	320	546	226
Total	\$537,717	\$475,859	(\$61,858)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$224,956	\$119,190	\$105,766
Special Revenue	375,199	267,732	107,467
Capital Projects	0	0	0
Permanent	7,500	0	7,500
Total	\$607,655	\$386,922	\$220,733

5. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted 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 the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

6. Retirement System

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5 and 9%, respectively, of their gross salaries and the Township contributed an amount equaling 13.85 and 13.7%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

7. Risk Management

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006, OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

The aforementioned casualty and property reinsurance agreements do not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

7. Risk Management (Continued)

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Assets	\$43,210,703	\$42,042,275
Liabilities	(13,357,837)	(12,120,661)
Net Assets	<u>\$29,852,866</u>	<u>\$29,921,614</u>

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$5,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

<u>Contributions to OTARMA</u>	
2005	\$6,813
2006	\$6,966
2007	\$5,809

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they provide written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

8. Subsequent Event

On March 11, 2008, the Township issued \$50,000 of Road Equipment Bonds for the acquisition of a John Deere Cab Tractor. These bonds were issued for a 5 year term and bear interest at the rate of 5.0% with a final maturity of March 11, 2013.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Chester Township
Morrow County
3627 Ruggles Road 178
Fredericktown, Ohio 43019

To the Board of Trustees:

We have audited the financial statements of Chester Township, Morrow County, Ohio (the Township), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated August 5, 2008, wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. 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 Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe finding numbers 2007-001 and 2007-002 are also material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated August 5, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Township'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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-002 and 2007-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated August 5, 2008.

We intend this report solely for the information and use of management and Board of Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

August 5, 2008

**CHESTER TOWNSHIP
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2007-001
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Significant Deficiency / Material Weakness

Financial Reporting

Sound financial reporting is the responsibility of the Fiscal Officer and the Board of Trustees and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following audit adjustments were made to the December 31, 2007 financial statements and accounting records:

1. An adjustment in the Capital Projects Fund to decrease earnings on investments by \$693, to decrease beginning fund balance by \$20,170, and to decrease cash by \$20,862. A corresponding adjustment was made in the Special Revenue Fund to increase earnings on investments by \$693, to increase beginning fund balance by \$20,170, and to increase cash by \$20,862. These adjustments were made due to the Zolman Expendable Trust Fund being coded improperly as a Capital Projects Fund rather than a Special Revenue Fund.
2. An adjustment in the Capital Projects Fund to increase beginning fund balance and cash by \$732. A corresponding adjustment was made in the Special Revenue Fund to decrease beginning fund balance and cash by \$732. These adjustments were made due to the Township Hall Restoration Fund being coded improperly as a Special Revenue Fund rather than a Capital Projects Fund.

The following audit adjustments were made to the December 31, 2006 financial statements and accounting records:

1. An adjustment in the Capital Projects Fund to decrease earnings on investments by \$769, to decrease beginning fund balance by \$20,862, and to decrease cash by \$21,631. A corresponding adjustment was made in the Special Revenue Fund to increase earnings on investments by \$769, to increase beginning fund balance by \$20,862, and to increase cash by \$21,631. These adjustments were made due to the Zolman Expendable Trust Fund being coded improperly as a Capital Projects Fund rather than a Special Revenue Fund.
2. An adjustment in the Capital Projects Fund to increase beginning fund balance and cash by \$732. A corresponding adjustment was made in the Special Revenue Fund to decrease beginning fund balance and cash by \$732. These adjustments were made due to the Township Hall Restoration Fund being coded improperly as a Special Revenue Fund rather than a Capital Projects Fund.

The audit adjustments and reclassifications identified above should be reviewed by the Fiscal Officer and Board of Trustees to ensure that similar errors are not reported on financial statements in subsequent years. In addition, the Township should develop procedures for the periodic review of the financial statement information to ensure it accurately reflects the Township's activity.

**CHESTER TOWNSHIP
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2007-002
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Significant Deficiency / Material Weakness / Noncompliance Citation

Board Approval of Interfund Transfers and Advances

Ohio Rev. Code §§ 5705.14, 5705.15, and 5705.16 provide guidelines pertaining to allowable interfund transfers. Ohio Rev. Code § 5705.14 provides that interfund transfers shall only be made by resolution of the taxing authority. See also 1989 Op. Att’y Gen. No. 89-075 (Ohio Rev. Code § 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds.) In certain circumstances, which are detailed in Ohio Rev. Code § 5705.14, transfers from funds other than the General Fund may be made by a resolution passed by a two-thirds vote of the taxing authority.

In addition to transfers from the General Fund and those permitted by Ohio Rev. Code § 5705.14, Ohio Rev. Code §§ 5705.15 and 5705.16 permit the taxing authority of any political subdivision, with the approval of the Tax Commissioner and the Court of Common Pleas, to transfer from one fund to another, any public funds under its supervision, except the proceeds or balances of loans, bond issues, special levies or the payment of loans or bond issues, the proceeds of funds derived from any excise tax levied by law for a specified purpose, and the proceeds or balances of any license fee imposed by law for a specified purpose.

Furthermore, Auditor of State Bulletin 97-003 states, in part, advances must be approved by a formal resolution of the taxing authority of the subdivision. This resolution must include a specific statement that the transaction is an advance of cash, and an indication of the money (fund) from which it is expected that repayment will be made.

In 2006, transfers totaling \$5,000 were made from the general fund to the cemetery fund. These transfers were not approved by a resolution passed by the Board of Trustees. Additionally, in 2006, advances totaling \$7,800 were made from the general fund to the cemetery fund and motor vehicle license tax fund while advance paybacks totaling \$5,100 were made from the cemetery fund to the general fund. These advances also were not specifically approved by a resolution passed by the Board of Trustees.

The Township’s financial statements and accounting records have been adjusted to remove the unapproved transfers and advances.

We recommend transfers and advances between funds be made only with prior authorization from the Board of Trustees. Also, the audit adjustments and reclassifications identified above should be reviewed by the Fiscal Officer and Board of Trustees to ensure that similar errors are not reported on financial statements in subsequent years. In addition, the Township should develop procedures for the periodic review of the financial statement information to ensure it accurately reflects the Township’s activity.

**CHESTER TOWNSHIP
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2007-003
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Noncompliance Citation

Certification of Funds

Ohio Rev. Code § 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. The Fiscal Officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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 Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by 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 Township.

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 Township 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.

**CHESTER TOWNSHIP
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2007-003 (Continued)
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Certification of Funds (Continued)

Thirteen percent of transactions tested were not certified by the Fiscal Officer at the time the commitment was incurred and there was no evidence that the Township followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Township certify all purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response

We did not receive a response from Officials to the findings reported above.

**CHESTER TOWNSHIP
MORROW COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 5735.29 – Supplanting Motor Fuel Excise Tax	Yes	



Mary Taylor, CPA
Auditor of State

CHESTER TOWNSHIP

MORROW 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
SEPTEMBER 30, 2008**