

Village of Chesapeake
Lawrence County, Ohio

Regular Audit

January 1, 2009 through December 31, 2010

Fiscal Years Audited Under GAGAS: 2010 and 2009



Balestra, Harr & Scherer, CPAs, Inc.

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Dave Yost • Auditor of State

Village Council
Village of Chesapeake
P.O. Box 388
Chesapeake, Ohio 45619

We have reviewed the *Independent Auditor's Report* of the Village of Chesapeake, Lawrence County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2009 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

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Dave Yost
Auditor of State

May 16, 2011

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Lawrence County, Ohio
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Independent Auditor’s Report

Village of Chesapeake
Lawrence County
P.O. Box 388
Chesapeake, Ohio 45619

To the Village Council:

We have audited the accompanying financial statements of the Village of Chesapeake, Lawrence County, Ohio, (the Village), as of and for the years ended December 31, 2010 and 2009. 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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

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

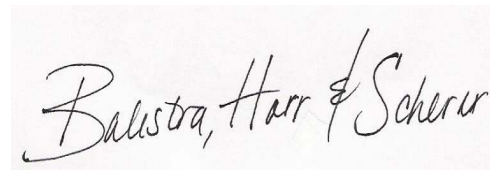
In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village of Chesapeake, Lawrence County, Ohio, as of December 31, 2010 and 2009, or its changes in financial position for the years then ended.

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Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Chesapeake, Lawrence County, Ohio, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2011, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
April 19, 2011

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$ 17,553	\$ 22,728	\$ -	\$ 40,281
Intergovernmental	43,472	61,806	49,848	155,126
Fines, Licenses, and Permits	138,744	3,808	-	142,552
Earnings on Investments	187	69	-	256
Miscellaneous	3,402	17,709	-	21,111
Total Cash Receipts	<u>203,358</u>	<u>106,120</u>	<u>49,848</u>	<u>359,326</u>
Cash Disbursements:				
Current:				
Security of Persons & Property	141,717	82,279	-	223,996
Leisure Time Activities	-	2,359	-	2,359
Transportation	-	16,352	-	16,352
General Government	116,251	-	-	116,251
Capital Outlay	-	4,363	49,848	54,211
Debt Service:				
Redemption of Principal	13,669	16,918	-	30,587
Interest and Fiscal Charges	817	4,800	-	5,617
Total Cash Disbursements	<u>272,454</u>	<u>127,071</u>	<u>49,848</u>	<u>449,373</u>
Total Cash Receipts Over/(Under) Cash Disbursements	(69,096)	(20,951)	-	(90,047)
Other Financing Receipts and (Disbursements):				
Transfers-In	-	16,354	-	16,354
Transfers-Out	(15,000)	(1,354)	-	(16,354)
Total Other Financing Receipts/(Disbursements)	<u>(15,000)</u>	<u>15,000</u>	<u>-</u>	<u>-</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(84,096)	(5,951)	-	(90,047)
Fund Cash Balances, January 1	<u>122,540</u>	<u>98,937</u>	<u>\$ -</u>	<u>221,477</u>
Fund Cash Balances, December 31	<u>\$ 38,444</u>	<u>\$ 92,986</u>	<u>\$ -</u>	<u>\$ 131,430</u>

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

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS FUND BALANCES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Agency</u>
Non-Operating Cash Receipts/Disbursements	
Other Non-operating Receipts	169,103
Other Non-operating Disbursements	<u>(168,771)</u>
Net Cash Receipts Over/(Under) Cash Disbursements	<u>332</u>
Fund Cash Balances, January 1	<u>4,845</u>
Fund Cash Balances, December 31	<u><u>\$ 5,177</u></u>

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

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 17,313	\$ 22,520	\$ 39,833
Intergovernmental	71,054	56,604	127,658
Charges for Services	9,409	4,226	13,635
Fines, Licenses, and Permits	163,959	4,170	168,129
Earnings on Investments	326	167	493
Miscellaneous	6,559	2,240	8,799
	<u>268,620</u>	<u>89,927</u>	<u>358,547</u>
Total Cash Receipts			
	<u>268,620</u>	<u>89,927</u>	<u>358,547</u>
Cash Disbursements:			
Current:			
Security of Persons & Property	139,983	21,047	161,030
Leisure Time Activities	-	1,747	1,747
Transportation	-	28,852	28,852
General Government	99,822	18,241	118,063
Capital Outlay	1,424	21,663	23,087
Debt Service:			
Redemption of Principal	13,439	17,727	31,166
Interest and Fiscal Charges	1,648	5,320	6,968
	<u>256,316</u>	<u>114,597</u>	<u>370,913</u>
Total Cash Disbursements			
	<u>256,316</u>	<u>114,597</u>	<u>370,913</u>
Total Cash Receipts Over/(Under) Cash Disbursements	12,304	(24,670)	(12,366)
Other Financing Receipts and (Disbursements):			
Proceeds from Sale of Public Debt:			
Sale of Notes	-	12,500	12,500
Transfers-In	-	25,000	25,000
Transfers-Out	(25,000)	-	(25,000)
	<u>(25,000)</u>	<u>37,500</u>	<u>12,500</u>
Total Other Financing Receipts/(Disbursements)			
	<u>(25,000)</u>	<u>37,500</u>	<u>12,500</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(12,696)	12,830	134
Fund Cash Balances, January 1	<u>135,236</u>	<u>86,107</u>	<u>221,343</u>
Fund Cash Balances, December 31	<u><u>\$ 122,540</u></u>	<u><u>\$ 98,937</u></u>	<u><u>\$ 221,477</u></u>

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

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS FUND BALANCES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Agency</u>
Non-Operating Cash Receipts/Disbursements	
Other Non-operating Receipts	199,937
Other Non-operating Disbursements	<u>(197,227)</u>
Net Cash Receipts Over/(Under) Cash Disbursements	<u>2,710</u>
Fund Cash Balances, January 1	<u>2,135</u>
Fund Cash Balances, December 31	<u><u>\$ 4,845</u></u>

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

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010 AND 2009**

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 the Village of Chesapeake, Lawrence County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services, including maintenance of roads and police services. The Village contracts with Chesapeake Union Township Volunteer Fire Department to receive fire protection services.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. The basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash Deposit

The Village values cash 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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

Fire Fund – This fund receives property tax money to provide fire protection for the Village residents.

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010 AND 2009
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Fire Levy Fund – This fund receives property tax money to provide fire protection for the Village residents.

3. Capital Projects Funds

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

Capital Projects Fund – This fund receives monies from Lawrence County and the Ohio Public Works Commission for specific road repair and improvement projects within the Village.

4. Fiduciary Funds (Agency Fund)

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for the activities of the Village's 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 or object level of control appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

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 Village to reserve (encumber) appropriations when individual commitments are made. The encumbrances outstanding at year end were canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio Law.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010 AND 2009
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

2. Equity in Pooled Cash and Investments

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

	2010	2009
Demand deposits	\$136,607	\$226,322
Total deposits	\$136,607	\$226,322

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2010 and December 31, 2009 follows:

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$199,696	\$203,358	\$ 3,662
Special Revenue	108,093	122,474	14,381
Capital Projects	49,848	49,848	0
Total	\$357,637	\$375,680	\$ 18,043

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Budgeted Expenses	Actual Expenses	Variance
General	\$345,095	\$287,454	\$ 57,641
Special Revenue	181,758	128,425	53,333
Capital Projects	49,848	49,848	0
Total	\$576,701	\$465,727	\$110,974

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010 AND 2009
(Continued)**

3. Budgetary Activity (Continued)

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$237,381	\$268,620	\$ 31,239
Special Revenue	<u>100,945</u>	<u>127,427</u>	<u>26,482</u>
Total	<u>\$338,326</u>	<u>\$396,047</u>	<u>\$ 57,721</u>

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Budgeted Expenses	Actual Expenses	Variance
General	\$353,418	\$281,316	\$ 72,102
Special Revenue	<u>203,420</u>	<u>114,597</u>	<u>88,823</u>
Total	<u>\$556,838</u>	<u>\$395,913</u>	<u>\$160,925</u>

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council 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 to the following June 20.

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

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

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

5. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010 AND 2009
(Continued)**

6. Retirement Systems

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS), with the exception of two council members who pay directly to social security. OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised code prescribes these plans' benefits, which include postretirement healthcare and survivor disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2010 and 2009, OP&F participants contributed 10% of their wages. For 2010 and 2009, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages and 24% of full-time fire fighters' wages, respectively. For 2010 and 2009, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2010.

7. Debt

Debt outstanding at December 31, 2010 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
City National Bank Loan	\$105,763	4%
Backhoe Loan	2,512	5%
OPWC Loan CU05I	45,000	0%
OPWC Loan CT54K	<u>14,105</u>	0%
Total	<u>\$167,380</u>	

The City National Bank Loan relates to the purchase of a new fire truck, purchased in 2000. The loan was repaid in monthly installments of \$1,273.03, including interest for, 4 months of 2005, and then the Village obtained a new City National Bank Loan on May 24, 2005 to make a balloon payment in the amount of \$151,732.41 to pay off the old debt. The loan was originally scheduled to be repaid in monthly installments of \$1,127.08, including interest, over a period of 59 months. In 2009 the loan was extended over a 20 year period. The loan is collateralized by the fire truck.

The Backhoe Loan relates to the purchase of a backhoe/end loader, purchased for \$12,500 in 2009. The loan will be repaid in monthly installments of \$328.13, including interest, over a period of 24 months. The loan is collateralized by the backhoe.

The two OPWC loans originated in 2008 and were not included on the previous year's schedule of outstanding debt. Loan CU05I was for the repair of a landslide and is payable in semi-annual installments of \$1,250 over a period of 20 years. Loan CT54K was also for the repair of a landslide and is payable in semi-annual installments of \$381.23 over a period of 20 years.

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
December 31, 2010 AND 2009
(Continued)**

7. Debt (Continued)

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

Year ended December 31	Backhoe Loan	OPWC CU05I	OPWC CT54K	City National Bank Loan
2011	\$2,637	\$2,500	\$762	\$9,531
2012		2,500	762	9,319
2013		2,500	762	9,107
2014		2,500	762	8,895
2015		2,500	762	8,682
2016 – 2020		12,500	3,810	40,235
2021 – 2025		12,500	3,810	34,935
2026 – 2029		<u>7,500</u>	<u>2,675</u>	<u>29,398</u>
Total	\$2,637	\$45,000	\$14,105	\$150,102

8. Lease

The lease outstanding at December 31, 2010 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Lease	<u>\$8,865</u>	5.65%
Total	<u>\$8,865</u>	

A new lease for two Police cruisers was obtained in July, 2006 with Daimler Chrysler in monthly installments of \$1,257.26, including interest for 5 years.

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

Year ending December 31:	<u>City National Bank Loan</u>
2011	<u>\$9,029</u>
Total	<u>\$9,029</u>

9. Noncompliance

Contrary to Ohio law, the Village had expenses exceeding appropriations.

Contrary to Ohio law, the Village had appropriations exceeding estimated resources.

Contrary to Ohio Law, the Village did not obtain a certification of available funds from the fiscal officer prior to obligating Village funds for expenditure.

Contrary to Ohio Law, the Village did not obtain a reduced amended certificate of estimated resources when the actual resources of the Village fell below the level of appropriations.

Contrary to Ohio Law, the Village did not maintain accounting records sufficient enough to allow for the Village to prepare accurate financial statements.



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

Village of Chesapeake
Lawrence County
P.O. Box 388
Chesapeake, Ohio 45619

To the Village Council:

We have audited the financial statements of the Village of Chesapeake, Lawrence County, Ohio, (the Village) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated April 19, 2011, wherein we noted the Village followed accounting practices the Auditor of State prescribes 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 the Comptroller General of the United States *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-001 described in the accompanying Schedule of Findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2010-001 through 2010-005.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated April 19, 2011.

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

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



Balestra, Harr & Scherer, CPAs, Inc.
April 19, 2011

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY
DECEMBER 31, 2010 AND 2009
SCHEDULE OF FINDINGS**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-001

Material Noncompliance/ Material Weakness

Ohio Administrative Code Section 117-2-02A directs all public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, and analyze, classify, record and report its transactions, maintain accountability for the related assets, and prepare financial statements required by Rule 117-2-03 of the OAC. OAC Section 117-2-02D allows the records to be maintained manually or in a computerized format and requires the following: 1) Cash journal with the amount, date, receipts number, check number, account code and any other information necessary to properly classify the transaction; 2) Receipts ledger to assemble and classify receipts into separate accounts for each type of receipt of each fund consisting of the amount, date, name of the payer, purpose, receipt number and other information necessary to record the transaction on this ledger, and; 3) Appropriation ledger to assemble and classify disbursements into separate accounts for, at a minimum, each account listed in the appropriations resolution. The amount, date, fund, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursements, uncommitted balance of appropriations and any other information required may be inter in the appropriate columns.

During 2009, the records of the Village were maintained on spreadsheets to record receipts and disbursements of the Village. These spreadsheets did not contain all of the elements described above. Furthermore, a cash journal was not maintained.

A review of receipts indicated numerous classification errors as to the type of receipt. A review of debt payments indicated several errors in the classification of these payments between principal payments and interest on the debt. Transactions relating to the OPWC debt were not posted to the Village records.

The fact that the posting errors resulting in reclassification and adjusting entries occurred indicates a significant deficiency in the internal controls of financial record keeping and reporting and resulted in the inaccurate reflection of the receipts and disbursements of the Village for 2010 and 2009.

We recommend the Clerk-Treasurer review the requirements of OAC Section 117-2-02 and the description of the accounts and to maintain the receipt ledger, appropriation ledger, and cash journal in the manner prescribed therein.

Client Response: The Village began recording the financial transactions on the Auditor of State's Uniform Accounting Network (UAN) in 2010 and now has the required cash journal, receipts ledger, and appropriation ledger. The Clerk-Treasurer will review the requirements of OAC Section 117-2-02. The Village has or is in the process of addressing all of the issues indicated.

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY
DECEMBER 31, 2010 AND 2009
SCHEDULE OF FINDINGS
(Continued)**

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

FINDING NUMBER 2010-002

Material Noncompliance

Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated.

2010	<u>Fund</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Variance</u>
	Street Construction, Maintenance and Repair Fund	\$55,653	\$ 56,613	(\$ 960)
	Permissive MVLT Fund	11,591	13,986	(2,395)
	Total	<u>\$67,244</u>	<u>\$ 70,599</u>	<u>(\$ 3,355)</u>

2009	<u>Fund</u>	<u>Budgeted Expenses</u>	<u>Actual Expenses</u>	<u>Variance</u>
	Street Construction, Maintenance and Repair Fund	\$71,769	\$76,989	(\$5,220)

The Village should monitor expenditures to ensure appropriations are not exceeded.

Client Response: The Village has or is in the process of addressing this issue.

FINDING NUMBER 2010-003

Material Noncompliance

Ohio Revised Code Section 5705.39 states in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate resources or amended official estimate resources.

2010	<u>Fund</u>	<u>Budgeted Resources</u>	<u>Budgeted Expenses</u>	<u>Variance</u>
	General Fund	\$299,857	\$345,095	(\$45,238)
	Parks & Recreation Fund	3,919	4,479	(560)
	Total	<u>\$303,776</u>	<u>\$349,574</u>	<u>(\$45,798)</u>

2009	<u>Fund</u>	<u>Budgeted Resources</u>	<u>Budgeted Expenses</u>	<u>Variance</u>
	General Fund	\$352,220	\$353,418	(\$ 1,198)
	Fire Fund	38,201	41,644	(3,443)
	Fire Levy Fund	28,773	48,315	(19,542)
	Parks & Recreation Fund	4,479	6,485	(2,006)
	Law Enforcement Trust Fund	9,088	11,479	(2,391)
	Total	<u>\$432,761</u>	<u>\$461,141</u>	<u>(\$28,580)</u>

The Village should monitor appropriations to ensure they do not exceed estimated resources.

Client Response: The Village has or is in the process of addressing this issue.

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY
DECEMBER 31, 2010 AND 2009
SCHEDULE OF FINDINGS
(Continued)**

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

FINDING NUMBER 2010-004

Material Noncompliance

Ohio Revised Code Section 5705.36(A)(4) requires the Village to request a reduced amended certificate of available resources when it is known that the amount of actual resources will fall below the level of appropriations.

2010		Actual		
	Fund	Resources	Appropriations	Variance
	General Fund	\$303,519	\$345,095	(\$41,576)
	Parks & Recreation Fund	4,232	4,479	(247)
	Total	\$307,751	\$349,574	(\$41,823)
2009		Actual		
	Fund	Resources	Appropriations	Variance
	Fire Levy Fund	42,720	48,315	(\$5,595)
	Parks & Recreation Fund	4,719	6,485	(1,766)
	Law Enforcement Trust Fund	9,384	11,479	(2,095)
	Total	\$56,823	\$66,279	(\$9,456)

The Village should monitor actual resources compared to budgetary estimates. When it is known that the level of actual resources will fall below the level of appropriations, a reduced amended certificate should be obtained. Further, appropriations should then be reduced to a level below the actual resources.

Client Response: The Village has or is in the process of addressing this issue.

FINDING NUMBER 2010-005

Material Noncompliance

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

- 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 or the certificate, appropriated and free of any previous encumbrances, the (entity) may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- If the amount involved is less than three thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the (legislative authority) upon completion of a then and now certificate.

Several transactions tested had no certification attached and some transactions were not certified prior to the purchase commitment. There was no indication that “then and now” certificates were used.

The Village should issue a valid purchase order with the signature of the fiscal officer prior to making any purchase commitment. In those events when commitments are made prior to obtaining the fiscal officer’s certificate, the Village should employ the allowable provision of law under this section, Ohio Revised Code Section 5705.41(D), and secure a “then and now” certificate. This matter was cited in the prior audit.

Client Response: The Village has or is in the process of addressing this issue.

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY
DECEMBER 31, 2010 AND 2009**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2008-001	Significant deficiency for failure of controls over financial reporting resulting in audit adjustments.	No	Reissued as material noncompliance/material weakness 2010-001
2008-002	ORC Section 5705.41(B) for disbursements exceeding appropriations.	No	Reissued as material noncompliance 2010-002
2008-003	ORC Section 5705.39 for appropriations exceeding total estimated resources.	No	Reissued as material noncompliance 2010-003



Dave Yost • Auditor of State

VILLAGE OF CHESAPEAKE

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 26, 2011**