



**Auditor of State
Betty Montgomery**

**CHESTER TOWNSHIP
CLINTON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental and Fiduciary Fund Types – For the Year Ended December 31, 2002.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental and Fiduciary Fund Types – For the Year Ended December 31, 2001.....	4
Notes to the Financial Statements.....	5
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	11
Schedule of Findings.....	13
Schedule of Prior Audit Findings.....	15

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Chester Township
Clinton County
510 Ward Road
Wilmington, Ohio 45177

To the Board of Trustees:

We have audited the accompanying financial statements of Chester Township, Clinton County, Ohio (the Township), as of and for the years ended December 31, 2002 and 2001. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Township as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 27, 2003

**CHESTER TOWNSHIP
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Fiduciary Fund</u>	
Cash Receipts:				
Local Taxes	\$42,041	\$64,127	\$0	\$106,168
Intergovernmental	19,120	81,136	0	100,256
Licenses, Permits, and Fees	0	1,550	0	1,550
Earnings on Investments	1,299	510	0	1,809
Other Revenue	1,026	2,950	0	3,976
	<u>63,486</u>	<u>150,273</u>	<u>0</u>	<u>213,759</u>
Total Cash Receipts				
	<u>63,486</u>	<u>150,273</u>	<u>0</u>	<u>213,759</u>
Cash Disbursements:				
Current:				
General Government	57,140	37,188	0	94,328
Public Works	0	70,959	0	70,959
Health	1,299	3,708	0	5,007
Debt Service:				
Redemption of Principal	0	12,124	0	12,124
Interest and Fiscal Charges	0	2,158	0	2,158
Capital Outlay	30,484	16,252	0	46,736
	<u>88,923</u>	<u>142,389</u>	<u>0</u>	<u>231,312</u>
Total Cash Disbursements				
	<u>88,923</u>	<u>142,389</u>	<u>0</u>	<u>231,312</u>
Total Receipts Over/(Under) Disbursements	<u>(25,437)</u>	<u>7,884</u>	<u>0</u>	<u>(17,553)</u>
Fund Cash Balances, January 1	<u>61,692</u>	<u>99,141</u>	<u>306</u>	<u>161,139</u>
Fund Cash Balances, December 31	<u>\$36,255</u>	<u>\$107,025</u>	<u>\$306</u>	<u>\$143,586</u>

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

**CHESTER TOWNSHIP
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Fiduciary Fund</u>	
Cash Receipts:				
Local Taxes	\$40,748	\$75,167	\$0	\$115,915
Intergovernmental	38,670	67,489	0	\$106,159
Licenses, Permits, and Fees	0	2,225	0	2,225
Earnings on Investments	2,030	928	0	2,958
Other Revenue	245	1,158	0	1,403
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	81,693	146,967	0	228,660
Cash Disbursements:				
Current:				
General Government	64,739	47,527	0	112,266
Public Works	0	79,245	0	79,245
Health	802	5,145	0	5,947
Debt Service:				
Redemption of Principal	0	15,421	0	15,421
Interest and Other Fiscal Charges	0	3,008	0	3,008
Capital Outlay	0	6,258	0	6,258
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	65,541	156,604	0	222,145
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	16,152	(9,637)	0	6,515
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>	<hr/>
	45,540	108,778	306	154,624
Fund Cash Balances, December 31	<hr/>	<hr/>	<hr/>	<hr/>
	\$61,692	\$99,141	\$306	\$161,139

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

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Chester Township, Clinton County, Ohio (the Township), 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 Township is directed by a publicly-elected three-member Board of Trustees. The Township provides road and bridge maintenance, cemetery maintenance, and fire protection.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash and Deposits

The Township's funds were deposited in a checking account with a local commercial bank. Interest income is distributed to Township funds based upon the Ohio Revised Code.

D. Fund Accounting

The Township uses fund accounting to segregate cash and deposits that are restricted as to use. The Township 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 Township had the following significant Special Revenue Funds:

Gasoline Tax Fund

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

Motor Vehicle Tax Fund

Receives motor vehicle tax money for constructing, maintaining and repairing Township roads.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Road & Bridge Fund

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

Cemetery Fund

Receives proceeds from the sale of cemetery lots for maintaining Township cemeteries.

Permissive Motor Vehicle License Tax Fund

Receives proceeds from tax levied on all motor vehicle licenses sold in the Township for road maintenance and repairs.

Fire Levy Fund

This fund receives proceeds from the property tax levy of fire protection.

3. Fiduciary Fund (Trust Fund)

This fund is used to account for resources restricted by legally binding trust agreements. The Township had the following fund:

Nonexpendable Trust Fund

This fund is used to account for the funds bequeathed to the Township for cemetery care.

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, 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. 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.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. There were no material encumbrances outstanding at December 31, 2002 and 2001.

A summary of 2002 and 2001 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.

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by the Township.

2. EQUITY IN POOLED CASH AND DEPOSITS

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

	2002	2001
Total Demand Deposits	\$143,586	\$161,139

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$54,109	\$63,486	\$9,377
Special Revenue	140,386	150,273	9,887
Total	\$194,495	\$213,759	\$19,264

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$115,106	\$88,923	\$26,183
Special Revenue	240,822	142,389	\$98,433
Total	\$355,928	\$231,312	\$124,616

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$105,491	\$65,541	\$39,950
Special Revenue	245,819	156,604	89,215
Total	\$351,310	\$222,145	\$129,165

The Township did not obtain prior certification of the fiscal officer for all purchases as required by Ohio Law.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

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

5. DEBT

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
Fire Pumper Note	\$31,970	5.3%

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

5. DEBT (Continued)

The Fire Pumper Note was authorized in March 1998 for the purpose of purchasing a new fire pumper. The note was issued in the amount of \$65,000 from the Fifth Third Bank at a 5.3% interest rate and is scheduled to expire in 2006. Annual payments are due in March and September of each year to include principal and interest. This note is collateralized solely by the Township's taxing authority.

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

<u>Year Ending December 31:</u>	<u>Fire Pumper Note</u>
2003	\$10,106
2004	10,106
2005	10,106
2006	<u>10,106</u>
Total	<u>\$40,424</u>

6. RETIREMENT SYSTEMS

Township Officials belong to the Public Employees Retirement System (PERS) of Ohio. PERS are cost-sharing, multiple-employer plans. 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 2002 and 2001, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 2002.

7. RISK POOL MEMBERSHIP

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

OTARMA retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

7. RISK POOL MEMBERSHIP (Continued)

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$10,000 on any specific loss with an annual aggregate of \$700,000 for 2001 and \$1,250,000 for 2002. The Travelers Indemnity Company reinsures losses exceeding \$10,000 if the annual aggregate is reached and all specific losses exceeding \$100,000. APEEP's Operating Fund and Guarantee Fund pay for losses and loss adjustment expenses should they exceed operating contributions.

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.

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:

<u>Casualty Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$23,757,036	\$23,703,776
Liabilities	<u>(9,197,512)</u>	<u>(9,379,003)</u>
Retained earnings	<u>\$14,559,524</u>	<u>\$14,324,773</u>

<u>Property Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$6,596,996	\$5,011,131
Liabilities	<u>(1,204,326)</u>	<u>(647,667)</u>
Retained earnings	<u>\$5,392,670</u>	<u>\$4,363,464</u>



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Chester Township
Clinton County
510 Ward Road
Wilmington, Ohio 45177

To the Board of Trustees:

We have audited the accompanying financial statements of Chester Township, Clinton County, Ohio (the Township), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated June 27, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2002-001. We also noted an immaterial instance of noncompliance that we have reported to management of the Township in a separate letter dated June 27, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Society's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Society's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A reportable condition is described in the accompanying schedule of findings as item 2002-001. A material weakness is a 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 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, we do not believe the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Society in a separate letter dated June 27, 2003.

This report is intended solely for the information and use of the management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 27, 2003

**CHESTER TOWNSHIP
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

FINDING NUMBER 2002-001

Noncompliance Citation/Reportable Condition

Ohio Rev. 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 appropriate 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 subdivision's fiscal officer. Every contract made without such a certificated 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 order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Trustees 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.
- B. If the amount involved is less than \$1,000 (\$3,000 effective 4/7/03), the Clerk may authorize payment through a Then and Now Certificate without affirmation of the Board of Trustees, if such expenditure is otherwise valid.

Thirty percent of the expenditures tested were executed without first obtaining the fiscal officer's certification and did not meet the exceptions provided for in the Code. Every effort should be made by the Township to properly utilize the encumbrance method of accounting by certifying funds on purchase orders. Failure to properly certify funds could result in overspending of the Township funds.

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**CHESTER TOWNSHIP
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2000**

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-40414-001	ORC, Section 5705.10, requires that all revenue derived from a source other than the general property tax and which thee prescribes shall be used for particular purpose, shall be paid into a special fund for such purpose.	Yes	
2000-40414-002	ORC, Section 5705.41 (B), prohibits a subdivision or taxing unit from making an expenditure, unless it has been properly appropriated.	Yes	



**Auditor of State
Betty Montgomery**

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CHESTER TOWNSHIP

CLINTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 22, 2003**