



**Auditor of State
Betty Montgomery**

VILLAGE OF CHESTERVILLE
MORROW COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Chesterville
Morrow County
P.O. Box 13
Chesterville, Ohio 43317

To the Village Council:

We have audited the accompanying financial statements of the Village of Chesterville, Morrow County, Ohio (the Village) as of and for the years ended December 31, 2002, and December 31, 2001. 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 *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 Village 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 and reserves for encumbrances of the Village as of December 31, 2002, and December 31, 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 18, 2003, 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 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.

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The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, Village Council, federal awarding agencies and pass-through entities, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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 18, 2003

**VILLAGE OF CHESTERVILLE
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, 2002**

| | <u>Governmental Fund Types</u> | | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|-----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | |
| Cash Receipts: | | | | |
| Property Tax and Other Local Taxes | \$14,930 | \$2,962 | \$0 | \$17,892 |
| Special Assessments | 0 | 0 | 249 | 249 |
| Intergovernmental Receipts | 52,707 | 4,232 | 1,659,069 | 1,716,008 |
| Fines, Licenses, and Permits | 2,679 | 0 | 0 | 2,679 |
| Earnings on Investments | 1,090 | 109 | 0 | 1,199 |
| Miscellaneous | 432 | 0 | 0 | 432 |
| | <u>71,838</u> | <u>7,303</u> | <u>1,659,318</u> | <u>1,738,459</u> |
| Total Cash Receipts | | | | |
| Cash Disbursements: | | | | |
| Current: | | | | |
| Security of Persons and Property | 5,612 | 0 | 0 | 5,612 |
| Public Health Services | 515 | 0 | 0 | 515 |
| Leisure Time Activities | 350 | 0 | 0 | 350 |
| Community Environment | 3,221 | 0 | 0 | 3,221 |
| Basic Utility Services | 684 | 0 | 0 | 684 |
| Transportation | 804 | 742 | 0 | 1,546 |
| General Government | 21,945 | 0 | 0 | 21,945 |
| Debt Service: | | | | |
| Principal Payments | 3,853 | 0 | 0 | 3,853 |
| Interest Payments | 1,770 | 0 | 0 | 1,770 |
| Capital Outlay | 7,948 | 0 | 2,095,226 | 2,103,174 |
| | <u>46,702</u> | <u>742</u> | <u>2,095,226</u> | <u>2,142,670</u> |
| Total Cash Disbursements | | | | |
| Total Receipts Over/(Under) Disbursements | <u>25,136</u> | <u>6,561</u> | <u>(435,908)</u> | <u>(404,211)</u> |
| Other Financing Receipts: | | | | |
| Loan Proceeds | <u>5,150</u> | <u>0</u> | <u>465,805</u> | <u>470,955</u> |
| Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements | 30,286 | 6,561 | 29,897 | 66,744 |
| Fund Cash Balances, January 1 | <u>37,862</u> | <u>30,462</u> | <u>0</u> | <u>68,324</u> |
| Fund Cash Balances, December 31 | <u>\$68,148</u> | <u>\$37,023</u> | <u>\$29,897</u> | <u>\$135,068</u> |

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

**VILLAGE OF CHESTERVILLE
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, 2001**

| | <u>Governmental Fund Types</u> | | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|-----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | |
| Cash Receipts: | | | | |
| Property Tax and Other Local Taxes | \$8,403 | \$2,705 | \$0 | \$11,108 |
| Special Assessments | 1,063 | 0 | 0 | 1,063 |
| Intergovernmental Receipts | 19,496 | 4,077 | 0 | 23,573 |
| Fines, Licenses, and Permits | 695 | 0 | 0 | 695 |
| Earnings on Investments | 1,758 | 133 | 0 | 1,891 |
| Miscellaneous | 188 | 0 | 0 | 188 |
| | <u>31,603</u> | <u>6,915</u> | <u>0</u> | <u>38,518</u> |
| Total Cash Receipts | | | | |
| Cash Disbursements: | | | | |
| Current: | | | | |
| Security of Persons and Property | 1,304 | 0 | 0 | 1,304 |
| Public Health Services | 2,169 | 0 | 0 | 2,169 |
| Leisure Time Activities | 276 | 0 | 0 | 276 |
| Basic Utility Services | 455 | 0 | 0 | 455 |
| Transportation | 0 | 2,169 | 0 | 2,169 |
| General Government | 34,517 | 0 | 0 | 34,517 |
| Debt Service: | | | | |
| Principal Payments | 3,587 | 0 | 334,177 | 337,764 |
| Interest Payments | 2,036 | 0 | 41,903 | 43,939 |
| Capital Outlay | 5,169 | 1,542 | 2,965 | 9,676 |
| | <u>49,513</u> | <u>3,711</u> | <u>379,045</u> | <u>432,269</u> |
| Total Cash Disbursements | | | | |
| Total Receipts Over/(Under) Disbursements | <u>(17,910)</u> | <u>3,204</u> | <u>(379,045)</u> | <u>(393,751)</u> |
| Other Financing Receipts: | | | | |
| Loan Proceeds | <u>7,014</u> | <u>0</u> | <u>379,045</u> | <u>386,059</u> |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements | (10,896) | 3,204 | 0 | (7,692) |
| Fund Cash Balances, January 1 | <u>48,758</u> | <u>27,258</u> | <u>0</u> | <u>76,016</u> |
| Fund Cash Balances, December 31 | <u>\$37,862</u> | <u>\$30,462</u> | <u>\$0</u> | <u>\$68,324</u> |
| Reserves for Encumbrances, December 31 | <u>\$0</u> | <u>\$0</u> | <u>\$94,236</u> | <u>\$94,236</u> |

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

**VILLAGE OF CHESTERVILLE
MORROW COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2001**

| | Proprietary Fund Type |
|---------------------------------------|----------------------------------|
| | Enterprise |
| Operating Cash Receipts: | \$0 |
| Operating Cash Disbursements: | |
| Capital Outlay | 37,042 |
| Operating (Loss) | (37,042) |
| Non-Operating Cash Receipts: | |
| Loan Proceeds | 36,292 |
| Net Receipts (Under) Disbursements | (750) |
| Fund Cash Balance, January 1 | 750 |
| Fund Cash Balance, December 31 | \$0 |

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

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**VILLAGE OF CHESTERVILLE
MORROW COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Chesterville, Morrow County, Ohio (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general government services, security services and fire protection services. The Village contracts with the Morrow County Sheriff's department to provide security of persons and property. The Village contracts with Big Walnut Joint Fire District to provide fire protection services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. 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 Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposits are valued at cost..

D. Fund Accounting

The Village uses fund accounting to segregate cash that is restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

**VILLAGE OF CHESTERVILLE
MORROW COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Capital Projects Fund

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

Wastewater Treatment Plant - This fund receives loan proceeds and grants for the purpose of constructing a wastewater treatment facility.

4. Enterprise Fund

This fund accounts for operations that are similar to private business enterprises. The Village had the following significant Enterprise Fund:

Enterprise Improvement Fund - This fund received proceeds from the sale of notes for the wastewater treatment facility.

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 level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

**VILLAGE OF CHESTERVILLE
MORROW COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2. EQUITY IN POOLED CASH

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

| | 2002 | 2001 |
|-------------------------|-----------|----------|
| Demand deposits | \$107,638 | \$41,558 |
| Certificates of deposit | 27,430 | 26,766 |
| Total deposits | \$135,068 | \$68,324 |

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

3. BUDGETARY ACTIVITY

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

| 2002 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$66,172 | \$76,988 | \$10,816 |
| Special Revenue | 0 | 7,303 | 7,303 |
| Capital Projects | 2,790,000 | 2,125,123 | (664,877) |
| Enterprise | 11,500 | 0 | (11,500) |
| Total | \$2,867,672 | \$2,209,414 | (\$658,258) |

| 2002 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$64,766 | \$46,702 | \$18,064 |
| Special Revenue | 28,900 | 742 | 28,158 |
| Capital Projects | 2,790,000 | 2,095,226 | 694,774 |
| Total | \$2,883,666 | \$2,142,670 | \$740,996 |

**VILLAGE OF CHESTERVILLE
MORROW COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

| 2001 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$7,014 | \$38,617 | \$31,603 |
| Special Revenue | 12,000 | 6,915 | (5,085) |
| Capital Projects | 850,000 | 379,045 | (470,955) |
| Enterprise | 0 | 36,292 | 36,292 |
| Total | \$869,014 | \$460,869 | (\$408,145) |

| 2001 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$70,466 | \$49,513 | \$20,953 |
| Special Revenue | 25,000 | 3,711 | 21,289 |
| Capital Projects | 3,000,000 | 473,281 | 2,526,719 |
| Enterprise | 59,128 | 37,042 | 22,086 |
| Total | \$3,154,594 | \$563,547 | \$2,591,047 |

4. PROPERTY TAX

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

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. DEBT

Debt outstanding at December 31, 2002 was as follows:

| | Principal | Interest Rate |
|------------------------|-----------|---------------|
| Ohio Water Development | \$850,000 | 3.28% |
| Installment Loan | 22,538 | 7.10% |
| Total | \$872,538 | |

**VILLAGE OF CHESTERVILLE
MORROW COUNTY**

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

5. DEBT (Continued)

The Ohio Water Development Authority loan relates to a wastewater plant expansion project that was mandated by the Ohio Environmental Protection Agency. The Authority has approved up to \$850,000 in loans to the Village for this project. The loan payments will not be determined until the project is complete. Upon completion, repayment guidelines will be established. The Village has agreed that federal loan proceeds will be used to pay this debt.

The Installment Loan is collateralized by the Village's taxing authority.

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

| | Installment Loan |
|--------------------------|---------------------|
| Year ending December 31: | |
| 2003 | \$5,604 |
| 2004 | 5,604 |
| 2005 | 5,604 |
| 2006 – 2007 | 9,804 |
| Total | \$26,616 |

6. RETIREMENT SYSTEM

The Village's full time employees belong to the Public Employees Retirement System of Ohio PERS is a cost-sharing, multiple employer plan. This plan provides retirement benefits, including post retirement health care, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are prescribed by the Ohio Revised Code. The Village's PERS members contributed 8.5% of gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salary for 2002 and 2001. The Village has paid all contributions required through December 31, 2002.

7. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Public Entities Pool of Ohio ("PEP"), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

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

**VILLAGE OF CHESTERVILLE
MORROW COUNTY**

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

7. RISK MANAGEMENT (Continued)

Property Coverage

PEP 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 PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP'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 | \$20,174,977 | \$19,358,458 |
| Liabilities | (8,550,749) | (8,827,588) |
| Retained earnings | <u>\$11,624,228</u> | <u>\$10,530,870</u> |

| <u>Property Coverage</u> | <u>2002</u> | <u>2001</u> |
|--------------------------|--------------------|--------------------|
| Assets | \$2,565,408 | 1,890,323 |
| Liabilities | (655,318) | (469,100) |
| Retained earnings | <u>\$1,910,090</u> | <u>\$1,421,223</u> |

**VILLAGE OF CHESTERVILLE
MORROW COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002**

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Disbursements |
|--|----------------------------------|---------------------------|----------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | |
| Water and Wastewater Disposal System for Rural Communities | | 10.760 | \$ 1,174,455 |
| <u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> | | | |
| <i>Passed Through Ohio Department of Development:</i> | | | |
| Small Cities Community Development Block Grant | C-W-01-243-1 | 14.228 | \$ 491,500 |
| Total | | | <u>\$ 1,665,955</u> |

The accompanying notes to this schedule are an integral part of this schedule.

**VILLAGE OF CHESTERVILLE
MORROW COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
DECEMBER 31, 2002**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Village's federal award programs. The schedule has been prepared on the cash basis of accounting.



**Auditor of State
Betty Montgomery**

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

Village of Chesterville
Morrow County
P.O. Box 13
Chesterville, Ohio 43317

To the Village Council:

We have audited the accompanying financial statements of the Village of Chesterville, Morrow County, Ohio, (the Village) as of and for the years ended December 31, 2002, and December 31, 2001, and have issued our report thereon dated June 18, 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 Village'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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated June 18, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we 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 Village in a separate letter dated June 18, 2003.

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This report is intended solely for the information and use of management, Village Council, and federal awarding agencies and pass through entities 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 18, 2003



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Village of Chesterville
Morrow County
P.O. Box 13
Chesterville, Ohio 43317

To the Village Council:

Compliance

We have audited the compliance of the Village of Chesterville, Morrow County, Ohio, (the Village) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that is applicable to its major federal programs for the year ended December 31, 2002. The Village's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the Village's management. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

In our opinion, the Village complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2002.

Internal Control Over Compliance

The management of the Village is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, Village Council, and federal awarding agencies and pass-through entities, 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 18, 2003

**VILLAGE OF CHESTERVILLE
MORROW COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material non-compliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510? | No |
| (d)(1)(vii) | Major Programs (list): | Community Development Block Grant (CDBG) (CFDA #14.228); Water and Waste Disposal System for Rural Communities (CFDA #10.760) |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | No |

VILLAGE OF CHESTERVILLE
MORROW COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2002 AND 2001

**2. FINDING RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment 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 encumbrance. Further, contracts and orders for expenditures lacking prior certification should be considered null and void.

This section also provides two exceptions to the above requirements:

- A. Then and Now Certificate - 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 order or contract and at the time of the certificate, appropriated and free of any previous encumbrance, Council may authorize the issuance of a check 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.
- B. If the amount involved is less than \$1,000, (\$3,000 effective April 7, 2003) the fiscal officer may authorize it to be paid without the affirmation of Council, if such expenditure is otherwise valid.

One hundred percent of the transactions tested were not certified by the Clerk-Treasurer prior to the commitment being incurred, nor were they certified using then-and-now certification. This procedure is not only required by Ohio law, but is a key control in the disbursement process to assure that purchase commitments receive prior approval, and to help reduce the possibility of Village funds being over expended or exceeding budgetary spending limitations as set by Council.

We recommend the Village Clerk-Treasurer implement procedures that will assure contracts or expenditures of money have the proper certification.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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VILLAGE OF CHESTERVILLE

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
OCTOBER 16, 2003**