

VILLAGE OF CHESTERVILLE
MORROW COUNTY
REPORT ON FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005



Mary Taylor, CPA

Auditor of State

Village Council
Village of Chesterville
P.O. Box 13
Chesterville, Ohio 43317

We have reviewed the *Independent Auditors' Report* of the Village of Chesterville, Morrow County, prepared by Holbrook & Manter, for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 29, 2007

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INDEPENDENT AUDITORS' REPORT

Village Council
Village of Chesterville
Morrow County

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, 2006 and 2005. 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 audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

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

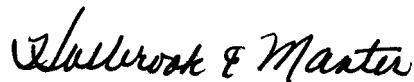
Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State of Ohio permits, but does not require, governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State of Ohio 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, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of Chesterville, Morrow County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. The Government has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2007 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.



Certified Public Accountants

August 28, 2007

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, 2006

	<u>General</u>	<u>Special Revenue</u>	<u>Total Memorandum Only</u>
CASH RECEIPTS:-			
Local taxes	\$ 22,326	\$ 2,531	\$ 24,857
Intergovernmental	17,205	7,231	24,436
Special assessments	2,456	0	2,456
Charges for services	1,956	0	1,956
Fines, licenses, and permits	509	0	509
Earnings on investments	882	25	907
	<hr/>	<hr/>	<hr/>
Total cash receipts	45,334	9,787	55,121
CASH DISBURSEMENTS:-			
Current;-			
Security of persons and property	4,808	0	4,808
Public health service	422	0	422
Community environment	1,200	0	1,200
Transportation	200	14,980	15,180
General government	28,897	0	28,897
Debt service;-			
Principal payment	5,137	0	5,137
Interest and fiscal charges	486	0	486
	<hr/>	<hr/>	<hr/>
Total cash disbursements	41,150	14,980	56,130
Total receipts over (under) cash disbursements	4,184	(5,193)	(1,009)
Fund cash balance, January 1, 2006	<hr/>	<hr/>	<hr/>
	33,299	17,359	50,658
Fund cash balance, December 31, 2006	<u>\$ 37,483</u>	<u>\$ 12,166</u>	<u>\$ 49,649</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 CHANGE IN
FUND CASH BALANCES - PROPRIETARY FUND TYPE-
FOR THE YEAR ENDED DECEMBER 31, 2006

	Enterprise
OPERATING CASH RECEIPTS:-	
Charges for services	\$ 108,526
OPERATING CASH DISBURSEMENTS:-	
Personal services	14,550
Employee fringe benefits	419
Contractual services	45,160
Supplies and materials	8,032
Total operating cash disbursements	68,161
Operating income (loss)	40,365
NON-OPERATING CASH RECEIPTS (DISBURSEMENTS):-	
Earnings on investments	677
Capital outlay	(1,531)
Redemption of principal	(10,000)
Interest and other fiscal charges	(38,250)
Other financing uses	(2)
Total non-operating cash receipts (disbursements)	(49,106)
Income (loss) before inter-fund transfers and advance	(8,741)
Transfers-in	40,413
Transfers-out	(40,413)
Net receipts over (under) disbursements	(8,741)
Fund cash balance, January 1, 2006	30,902
Fund cash balance, December 31, 2006	\$ 22,161

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, 2005

	General	Special Revenue	Total Memorandum Only
CASH RECEIPTS:-			
Local taxes	\$ 15,623	\$ 2,543	\$ 18,166
Intergovernmental	17,121	6,725	23,846
Charges for services	1,894	2,674	4,568
Special assessments	1,798	0	1,798
Fines, licenses, and permits	2,222	0	2,222
Earnings on investments	528	18	546
Miscellaneous	382	0	382
	39,568	11,960	51,528
CASH DISBURSEMENTS:-			
Current;-			
Security of persons and property	4,227	0	4,227
Public health service	1,230	0	1,230
Leisure time activities	284	0	284
Community environment	1,200	0	1,200
Transportation	0	16,865	16,865
General government	23,173	0	23,173
Debt service;-			
Principal payment	4,786	0	4,786
Interest and fiscal charges	837	0	837
	35,737	16,865	52,602
Total cash disbursements	35,737	16,865	52,602
Total receipts over (under) cash disbursements	3,831	(4,905)	(1,074)
Other financing receipts (disbursements);-			
Transfers-out	0	(2,674)	(2,674)
	0	(2,674)	(2,674)
Excess of cash receipts and other financing receipts over (under) cash disbursements and other financing disbursements	3,831	(7,579)	(3,748)
Fund cash balance, January 1, 2005	29,468	24,938	54,406
Fund cash balance, December 31, 2005	\$ 33,299	\$ 17,359	\$ 50,658

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 CHANGE IN
FUND CASH BALANCES - PROPRIETARY FUND TYPE-
FOR THE YEAR ENDED DECEMBER 31, 2005

	Enterprise
OPERATING CASH RECEIPTS:-	
Charges for services	\$ 103,628
Fines, Licenses and Permits	250
Total operating cash receipts	103,878
OPERATING CASH DISBURSEMENTS:-	
Personal services	15,053
Employee fringe benefit:	539
Contractual services	42,092
Supplies and materials	6,512
Total operating cash disbursements	64,196
Operating income (loss)	39,682
NON-OPERATING CASH RECEIPTS (DISBURSEMENTS):-	
Earnings on investments	357
Interest and other fiscal charges	(38,250)
Other financing uses	(324)
Total non-operating cash receipts (disbursements)	(38,217)
Income (loss) before inter-fund transfers and advance	1,465
Transfers-in	104,567
Transfers-out	(101,893)
Net receipts over (under) disbursements	4,139
Fund cash balance, January 1, 2005	26,763
Fund cash balance, December 31, 2005	\$ 30,902

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

VILLAGE OF CHESTERVILLE
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 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 Chesterville, Morrow County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general government services, sewer utilities, 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 of Ohio. This basis 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 adequately disclose material matters the Auditor of State of Ohio prescribes.

- C. **Cash and Investments** - The Village's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports gains or losses at the time of sale as receipts or disbursements, respectively.

Certificates of deposit are valued at cost.

- D. **Fund Accounting** - The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

General Fund

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

Special Revenue Funds

These funds 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 Funds:

Street Construction, Maintenance and Repair Fund

This fund receives gasoline tax, motor vehicle tax money for constructing, maintaining, and repairing Village streets.

Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Sewer Operating Fund

This fund receives charges for services from residents to cover sewer service costs.

VILLAGE OF CHESTERVILLE
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

Sewer Operations and Maintenance Fund

The purpose of this fund is to accumulate monies for ongoing operations and maintenance expenditures in connection with the wastewater treatment plant.

Sewer Operations and Maintenance Emergency Fund

The purpose of this fund is to accumulate monies for emergency operations and maintenance expenditures in connection with the wastewater treatment plant.

Sewer Loan Payment Fund

The purpose of this fund is to accumulate monies to satisfy the annual debt service requirements in connection with the wastewater treatment plant outstanding debts.

- E. Budgetary Process** - The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

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. Village 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.

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.

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.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

- F. Property, Plant and Equipment** - The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS:-

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

	<u>2006</u>	<u>2005</u>
Demand deposits	\$ 32,091	\$ 32,434
Certificates of deposit	28,034	28,492
Total deposits	<u>60,125</u>	<u>60,926</u>
Money market funds	11,685	20,634
Total deposits and investments	<u>\$ 71,810</u>	<u>\$ 81,560</u>

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

VILLAGE OF CHESTERVILLE
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 3 - BUDGETARY ACTIVITY:-

Budgetary activity for the year ending December 31, 2006 was as follows:

2006 Budgeted VS. Actual Receipts
--

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 39,567	\$ 45,334	\$ 5,767
Special Revenue	9,766	9,787	21
Enterprise	<u>106,000</u>	<u>149,616</u>	<u>43,616</u>
Total	\$ <u>155,333</u>	\$ <u>204,737</u>	\$ <u>49,404</u>

2006 Budgeted VS. Actual Budgetary Basis Expenditures
--

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 0	\$ 41,150	\$ (41,150)
Special Revenue	0	14,980	(14,980)
Enterprise	<u>0</u>	<u>158,357</u>	<u>(158,357)</u>
Total	\$ <u>0</u>	\$ <u>214,487</u>	\$ <u>(214,487)</u>

Contrary to Ohio Law, the Village did not certify the annual appropriations with the County Budget Commission, and the budgetary expenditures exceeded the Village's appropriation authority as of December 31, 2006 for all funds.

VILLAGE OF CHESTERVILLE
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 3 - BUDGETARY ACTIVITY:- (continued)

Budgetary activity for the year ending December 31, 2005 was as follows:

2005 Budgeted VS. Actual Receipts
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<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 30,931	\$ 39,568	\$ 8,637
Special Revenue	5,516	11,960	6,444
Enterprise	<u>103,700</u>	<u>208,802</u>	<u>105,102</u>
Total	\$ <u>140,147</u>	\$ <u>260,330</u>	\$ <u>120,183</u>

2005 Budgeted VS. Actual Budgetary Basis Expenditures
--

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 63,660	\$ 35,737	\$ 27,923
Special Revenue	42,000	19,539	22,461
Enterprise	<u>132,710</u>	<u>204,663</u>	<u>(71,953)</u>
Total	\$ <u>238,370</u>	\$ <u>259,939</u>	\$ <u>(21,569)</u>

Contrary to Ohio Law, budgetary expenditures exceeded the Village's appropriation authority as of December 31, 2005 for the Enterprise funds by \$71,953.

Also contrary to Ohio Law, appropriations exceeded estimated resources for the following funds: General (\$3,261), Special Revenue (\$11,546), and Enterprise (\$2,247) for the year ended December 31, 2005.

VILLAGE OF CHESTERVILLE
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 4 - PROPERTY TAX:-

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

NOTE 5 - DEBT:-

Debt outstanding at December 31, 2006, was as follows:

	Principal Balance 12/31/2006	Interest Rate
USDA Rural Development	\$ 840,000	4.50%
Installment Loan	4,042	7.10%
Total	\$ 844,042	

The USDA Rural Development (USDA) loan relates to a wastewater plant expansion project that was mandated by the Ohio Environmental Protection Agency. The USDA loan proceeds were used to repay Ohio Water Development Authority (OWDA) debt outstanding as of December 31, 2002. The Village is to repay the loan over 40 years in annual payments of fixed principal and interest to be determined annually by USDA Rural Development. An approximate payment schedule is included below. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover USDA debt service requirements. The Village has opened three new accounts in a financial institution, as required by USDA Rural Development. The Village funds these accounts to accumulate reserves for operating and maintenance, emergency, and debt service purposes.

The Installment Loan is in connection with a purchase of Village property and was obtained in 1997. The loan is collateralized by the Village's taxing authority and is to be repaid in equal installments over a period of ten years with the final payment to be made in 2007.

Amortization of the debt above, including interest, is scheduled as follows for the years ending December 31:

	Principal	Interest	Total
2007	\$ 14,042	\$ 37,916	\$ 51,958
2008	10,000	37,350	47,350
2009	10,000	36,900	46,900
2010	10,000	36,450	46,450
2011	12,000	36,000	48,000
2012 - 2016	66,000	171,630	237,630
2017 - 2021	78,000	155,610	233,610
2022 - 2026	96,000	136,710	232,710
2027 - 2031	122,000	113,040	235,040
2032 - 2036	150,000	82,890	232,890
2037 - 2041	190,000	45,900	235,900
2042 - 2043	86,000	5,850	91,850
Total	\$ 844,042	\$ 896,246	\$ 1,740,288

VILLAGE OF CHESTERVILLE
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 6 - RETIREMENT SYSTEMS:-

The Village's full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plan's retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, participants contributed 9.0% and 8.5%, respectively, of their wages. The Village contributed an amount equal to 13.70% and 13.55%, respectively of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

NOTE 7 - RISK POOL MANAGEMENT:-

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

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

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 coverage 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

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

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

Property Coverage

Through 2006, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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.

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

VILLAGE OF CHESTERVILLE
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 7 - RISK POOL MANAGEMENT:- (continued)

Financial Position

PEP's financial statements (audited by other accountants) are represented to conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Casualty Coverage</u>		
Assets	\$ 30,997,878	\$ 29,719,675
Liabilities	(15,875,741)	(15,994,168)
Retained Earnings	<u>\$ 15,122,137</u>	<u>\$ 13,725,507</u>
<u>Property Coverage</u>		
Assets	\$ 5,125,326	\$ 4,443,332
Liabilities	(863,163)	(1,068,245)
Retained Earnings	<u>\$ 4,262,163</u>	<u>\$ 3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$16,000. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

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

<u>Contributions to PEP</u>	
2004	\$ 7,378
2005	\$ 7,607
2006	\$ 7,954

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



**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Required by Government Auditing Standards.**

Village Council
Village of Chesterville
Morrow County

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, 2006 and 2005, and have issued our report thereon dated August 28, 2007, 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 expressing our opinion on the financial statements, but not to opine 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting as item 2006-005.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are a material weakness.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated August 28, 2007.

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 that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2006-001 through 2006-004.

We also noted certain immaterial instances of non-compliance that we reported to the Village's management in a separate letter dated August 28, 2007.

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



Certified Public Accountants

August 28, 2007

**VILLAGE OF CHESTERVILLE
MORROW COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

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

Finding Number	2006-001
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Noncompliance Citation - Certification of Expenditures

Section 5705.41 (D), Ohio Revised Code, states that no subdivision shall make any contract or order any expenditure of money unless a 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. Furthermore, contracts and orders for expenditures lacking prior certification should be null and void unless, for expenditures under \$3,000, the Council obtains from the fiscal officer a certificate stating that there was at the time of the making of the contracts or orders a sufficient sum appropriated. The council, by resolution, then may authorize the issuance of a warrant for the payments of the amount due.

During our testing of expenditures, there were instances in which funds were obligated without prior or any certification. There was no evidence of subsequent resolutions authorizing payment for such obligations. Expenditures without prior certification could result in expenditures exceeding appropriations, although, no such instances were noted. We recommend that a purchase order be completed before all expenditures are initiated. Alternatively, the Village might consider using then and now certificates or blanket certificates, allowed by the O.R.C. for expenditures meeting certain criteria.

Officials' Response

The Village is currently addressing the above issue and plans to improve the monitoring of this condition.

Finding Number	2006-002
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Noncompliance Citation – Budgetary Expenditures Exceeding Appropriations

Ohio Revised Code, Section 5705.41(B), prohibits a subdivision from making an expenditure, unless it has been properly appropriated.

During our compliance testing procedures, we noted that the Village exceeded its appropriation authority as outlined on pages 11 and 12 in Note 3 of the financial statements. We recommend that in future years all appropriations be submitted timely to the County Budget Commission for approval. Any original and amended budgetary documents should be kept on file and should be available for review during the biannual village audits.

Officials' Response

The Village is currently addressing the above issue and plans to improve its budgetary compliance processes.

**VILLAGE OF CHESTERVILLE
MORROW COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

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

Finding Number	2006-003
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Noncompliance Citation – Appropriations Exceeding Estimated Resources

Ohio Revised Code, Section 5705.39, states that the total appropriation from each fund should not exceed the total estimated revenue as certified by the county budget commission. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. The Village’s appropriations exceeded estimated resources as of December 31, 2005 as outlined on page 12 in Note 3 of the financial statements.

We recommend the Village Council and Clerk periodically review the Village’s appropriations versus certified estimated resources to identify and investigate any variances and to help monitor legal compliance. The Village officials should ensure that the Village has properly prepared and submitted all required budgetary documents to the county auditor. Also, each time appropriations are adopted or amended the Village should ensure the certificate of the County Auditor is received indicating appropriations do not exceed certified resources.

Officials’ Response

The Village is currently addressing the above issue and plans to improve its budgetary compliance processes.

Finding Number	2006-004
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Noncompliance Citation – Maintaining Complete Accounting Records in UAN

Ohio Administrative Code, Section 117-2-02, requires that all local public offices maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record, and report its transactions. The management of each local public office is responsible for the assertions underlying the information in the public office’s financial statements among them being completeness, which requires that all account balances and transactions that should be included in the financial records are included. In addition, Ohio Revised Code, Section 733.28, requires the Village Clerk to maintain the books of the Village and exhibit accurate statements of all monies received and expended. We noted the following discrepancies with the Village accounting records:

Please refer to finding 2004-004 in the 2004 and 2003 audit report. After the 2004 and 2003 audit was completed in 2005, the Village obtained assistance and worked on correcting the issues with the accounting for the sewer operations. While in 2006 most of the issues were addressed, we found that one bank account did not appear to be properly setup in the UAN system. In addition, several transfer-in and transfer-out transactions were accounted for as receipts and disbursements. The same issues that were identified in finding 2004-004 persisted in 2005. The Village has accepted correcting audit adjustments, which are reflected in the financial statements.

Same as last year, we recommend that the Village contact the Auditor of State’s Office and seek assistance in properly setting up the UAN accounting system’s balances and all bank accounts.

Officials’ Response

The Village is currently addressing the above issue and plans to resolve this condition in the near future.

**VILLAGE OF CHESTERVILLE
MORROW COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS. (continued)

Finding Number	2006-005
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Significant Deficiency – Internal Control and Review Procedures

Although the Council receives and reviews a select number of reports from the Fiscal Officer of the Village for approval on a monthly basis, the Village has not established formal procedures to reasonably assure completeness and accuracy of the monthly reporting. During our testing and analysis, we noted that Village Council or the Village Mayor are not reviewing the numerical check sequence prior to approving of purchases. In addition, neither party is reviewing the bank statement for proper inclusion of authorized expenditures within the cancelled checks or electronic fund withdraws.

The Village should carefully review this information and make appropriate inquires to help determine the integrity of the financial information. When performing such review, the officials' signatures or initials and the date should be indicated on the documents examined and it should be noted in the monthly minutes that the officials' thoroughly reviewed and approved those documents. In addition, we also recommend that the numerical check sequence be noted in the minutes and signed off of by the Council each month.

Officials' Response

The Village is currently addressing the above issues and plans to implement procedures to address the aforementioned risks and concerns.

VILLAGE OF CHESTERVILLE
MORROW COUNTY
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	Ohio Rev. Code Section 5705.41(D) - prior certification.	No	Reported as finding 2006-001.
2004-002	Ohio Revised Code, Section 5705.41(B) - Budgetary expenditures exceed appropriations	No	Reported as finding 2006-002.
2004-003	Ohio Revised Code, Section 5705.39 - Appropriations exceed estimated resources	No	Reported as finding 2006-003.
2004-004	Ohio Administrative Code, Section 117-2-02 - Accounting records	No	Reported as finding 2006-004.



Mary Taylor, CPA
Auditor of State

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
NOVEMBER 8, 2007**