

VILLAGE OF CHESTERHILL

MORGAN COUNTY

REGULAR AUDIT

JANUARY 1, 2006 THROUGH DECEMBER 31, 2007

YEARS AUDITED UNDER GAGAS: 2007 AND 2006

CAUDILL & ASSOCIATES CPA's

725 5th Street
Portsmouth, Ohio 45662



Mary Taylor, CPA

Auditor of State

Village Council
Village of Chesterhill
P.O. Box 191
Chesterhill, Ohio 43728-0191

We have reviewed the *Independent Auditor's Report* of the Village of Chesterhill, Morgan County, prepared by Caudill & Associates, CPA's, for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 4, 2008

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VILLAGE OF CHESTERHILL
MORGAN COUNTY

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Caudill & Associates, CPA's

725 5th Street
Portsmouth, OH 45662

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Independent Auditor's Report

To the Village Council
Village of Chesterhill
Morgan County
P.O. Box 191
Chesterhill, Ohio 43728

We have audited the accompanying financial statements of the Village of Chesterhill (the Village), Morgan County, Ohio, as of and for the years ended December 31, 2007 and 2006. 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 has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2007 and 2006. Instead of the combined funds the accompanying financial statements present for 2007 and 2006, the revisions require presenting entity wide statements and also presenting its larger (i.e. major) funds separately for 2007 and 2006. 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 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 permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the third following paragraph.

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

The accompanying financial statements present receipts and disbursements by fund and fund type only. Ohio Administrative Code Section 117-2-02(A) requires governments to classify receipt and disbursement transactions.

Village of Chesterhill
Morgan County
Independent Auditor's Report
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Also, in our opinion, except for the omission of receipt and disbursement classifications, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village, as of December 31, 2007 and 2006, and its unclassified cash receipts and unclassified disbursements for the years then ended on the accounting basis Note 1 describes.

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, 2007 and 2006. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2008, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Caudill & Associates, CPAs

Caudill & Associates, CPA's

June 20, 2008

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

	<u>Balance 1/1/2007</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 12/31/2007</u>
General	\$ 14,768	\$ 55,413	\$ 45,675	\$ 24,506
<u>Special Revenue:</u>				
Street Construction, Maintenance and Repair	2,720	11,196	12,801	1,115
State Highway Improvement	2,343	1,277	3,041	579
Fire	3,061	5,397	3,591	4,867
Broadband	1,390	-	810	580
Parks and Recreation	2,481	4,083	4,803	1,761
Total Special Revenue	<u>11,995</u>	<u>21,953</u>	<u>25,046</u>	<u>8,902</u>
<u>Capital Projects</u>				
Building Fund	(8,946)	-	16	(8,962)
Theatre Fund	(3,230)	6,623	4,526	(1,133)
Union Hall Renovation	3,421	-	340	3,081
Total Capital Projects	<u>(8,755)</u>	<u>6,623</u>	<u>4,882</u>	<u>(7,014)</u>
<u>Enterprise:</u>				
Water	26,094	167,730	168,808	25,016
Water Line Extension	5,210	-	-	5,210
Water Tower Improvement	10,534	-	-	10,534
Total Enterprise	<u>41,838</u>	<u>167,730</u>	<u>168,808</u>	<u>40,760</u>
Total All Funds	<u>\$ 59,846</u>	<u>\$ 251,719</u>	<u>\$ 244,411</u>	<u>\$ 67,154</u>

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

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

	<u>Balance 1/1/2006</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 12/31/2006</u>
General	\$ 16,531	\$ 40,059	\$ 41,822	\$ 14,768
<u>Special Revenue:</u>				
Street Construction, Maintenance and Repair	(1,958)	12,657	7,979	2,720
State Highway Improvement	1,613	855	125	2,343
Fire	2,338	5,723	5,000	3,061
Broadband	-	2,945	1,555	1,390
Parks and Recreations	(80)	8,376	5,815	2,481
				-
Total Special Revenue	<u>1,913</u>	<u>30,556</u>	<u>20,474</u>	<u>11,995</u>
<u>Capital Projects:</u>				
Building Fund	(6,323)	-	2,623	(8,946)
Theatre	(3,218)	6,564	6,576	(3,230)
Union Hall Renovation	5,327	-	1,906	3,421
Total Capital Projects	<u>(4,214)</u>	<u>6,564</u>	<u>11,105</u>	<u>(8,755)</u>
<u>Enterprise:</u>				
Water	11,696	166,822	152,424	26,094
Water Line Extension	5,210	-	-	5,210
Water Tower Improvement	10,534	-	-	10,534
Total Enterprise	<u>27,440</u>	<u>166,822</u>	<u>152,424</u>	<u>41,838</u>
Total All Funds	<u><u>\$ 41,670</u></u>	<u><u>\$ 244,001</u></u>	<u><u>\$ 225,825</u></u>	<u><u>\$ 59,846</u></u>

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

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Chesterhill, Morgan County (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 services that include maintenance of streets, water utility services, trash pickup, and fire protection through a contract with the Chesterhill Volunteer Fire Department.

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).

The Village did not classify its receipts and disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Administrative Code Section 117-02-02(A). This Ohio Administrative Code Section requires classifying receipts and disbursements.

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

C. Cash and Investments

The Village Clerk invests all available funds of the Village in an interest-bearing checking account and STAR Ohio (the State Treasurer's investment pool). Interest earned is recognized and recorded when received.

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. Trash pick-up is a small revenue source for the Village and has not been re-classified to an enterprise fund due to consistency of prior years and the small size of the revenue. Trash revenue didn't meet any of the three criteria required by GASB for sanitation revenue to be placed into an enterprise fund.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

2. Special Revenue Funds (Continued)

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax and motor vehicle license tax money to construct, maintain and repair Village Streets.

Fire Fund – This fund receives money from a tax levy approved by the voters to provide fire protection.

Parks and Recreation Fund – This fund receives money to construct, maintain and repair Village Parks.

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Village had the following significant Capital Project Funds:

Building Fund – This fund receives money for the construction of a Village Building.

Union Hall Renovation Fund – This fund received money from the Kate Love Simpson Library for rent. The monies were used to renovate the Union Hall for use as a library branch.

Theatre Fund – This fund receives money from donations. The monies will be used to renovate the Theatre at the Union Hall.

4. Enterprise Funds

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

Water Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

Water Tower Improvement Fund – This fund receives monies from various granting agencies in the form of loans and grants for water system improvements.

Water Line Extension Fund – This fund received money from loan proceeds from the Ohio Water Development Authority for water line extensions.

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. The Village did not encumber any commitments as required by Ohio law.

A summary of 2007 and 2006 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.

2. EQUITY IN POOLED CASH

The Villages maintains a cash 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:

	<u>2007</u>	<u>2006</u>
Deposits:		
Demand Deposits	\$50,500	\$44,010
Investments:		
STAR Ohio	<u>16,654</u>	<u>15,836</u>
Total Deposits	<u>\$67,154</u>	<u>\$59,846</u>

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

2. EQUITY IN POOLED CASH (Continued)

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

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

3. BUDGETARY ACTIVITY for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$54,494	\$55,413	\$919
Special Revenue	15,133	21,953	6,820
Capital Projects	0	6,623	6,623
Enterprise Funds	163,500	167,730	4,230
Total	<u>\$233,127</u>	<u>\$251,719</u>	<u>\$18,592</u>

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$39,585	\$45,675	(\$6,090)
Special Revenue	20,700	25,046	(4,346)
Capital Projects	0	4,882	(4,882)
Enterprise Funds	101,200	168,808	(67,608)
Total	<u>\$161,485</u>	<u>\$244,411</u>	<u>(\$82,926)</u>

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$43,336	\$40,059	(\$3,277)
Special Revenue	21,138	30,556	9,418
Capital Projects	0	6,564	6,564
Enterprise Funds	115,000	166,822	51,822
Total	<u>\$179,474</u>	<u>\$244,001</u>	<u>\$64,527</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$43,878	\$41,822	\$2,056
Special Revenue	16,590	20,474	(3,884)
Capital Projects	0	11,105	(11,105)
Enterprise Funds	100,730	152,424	(51,694)
Total	<u>\$161,198</u>	<u>\$225,825</u>	<u>(\$64,627)</u>

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

4. COMPLIANCE

- 1.) Contrary to the Ohio Revised Code Section 5705.41(B), expenditures exceeded appropriations in several funds in 2006 and 2007.
- 2.) The Village was in violation of the Ohio Revised Code Section 5705.10 for negative fund balances in several funds in 2006 and 2007.
- 3.) The Village was in violation of the Ohio Revised Code Section 5705.36 due to estimated receipts exceeded actual receipts in several funds at December 31, 2007 and 2006 causing actual resources to fall below the level of appropriations.
- 4.) The Villages was in violation of the Ohio Revised Code Section 5705.39 when appropriations exceeded estimated resources in 2007.
- 5.) The Village was in violation of the Ohio Revised Code Section 5705.41(D) for not properly certifying funds in 2006 and 2007.
- 6.) The Village was in violation of the Ohio Revised Code Section 149.351 for insufficient supporting documentation, such as original invoices, statements or vouchers for 11.5 percent of the nonpayroll transactions tested in 2006.
- 7.) Contrary to Ohio Administrative Code Section 117-2-02(A) the Village Clerk failed to maintain an appropriate receipts ledger or appropriations ledger.

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

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

6. DEBT

Outstanding at December 31, 2007 was as follows:

	<u>Principal</u>	<u>Interest</u>
Kubota Tractor Loan	\$ 667	2.99%
Land Purchase Loan	7,051	8.50%
Ohio Water Development Authority Loan #1517	195,105	7.45%
Ohio Water Development Authority Loan #1518	20,356	6.51%
Ohio Water Development Authority Loan #3526	141,496	1.50%
Ohio Water Development Authority Loan #4248	<u>192,601</u>	1.50%
	<u>\$ 557,276</u>	

The tractor loan was obtained to provide financing for the purchase of a new tractor. The Water Fund is being used to repay this debt. The equipment is being used as collateral on the loan.

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

6. DEBT (Continued)

Land purchase loan was obtained to provide financing for the purchase of land. The land is being used as collateral on the loan.

The Ohio Water Development Authority (OWDA) loans relate to funding upgrades in the Village utility system to meet EPA standards.

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

Year Ending December 31:	Kubota Tractor Loan	Land Purchase Loan	OWDA Loan	OWDA Loan	OWDA Loan	OWDA Loan
2008	\$830	\$2,967	\$27,468	\$2,738	\$7,042	\$10,082
2009		2,967	27,468	2,738	7,042	10,082
2010		2,226	27,468	2,738	7,042	10,082
2011			27,468	2,738	7,042	10,082
2012			27,468	2,738	7,042	10,082
2013-2017			137,340	13,689	35,210	50,410
2018-2022			27,463	2,736	35,210	50,410
2023-2027					35,210	50,410
2028-2032					31,689	50,410
2033-2037						30,246
Total	<u>\$830</u>	<u>\$8,160</u>	<u>\$302,143</u>	<u>\$30,115</u>	<u>\$172,529</u>	<u>\$282,296</u>

7. RETIREMENT SYSTEM

The Village's elected officials and employees belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement 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 2007 and 2006, members of OPERS contributed 9% and 9.5% respectively of their gross salaries. The Village contributed an amount equal to 13.70%, and 13.55% of participants' gross salaries. The Village has paid all employer contributions required through December 31, 2007.

8. RISK MANAGEMENT

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). The Village pays an annual contribution to fund PEP. PEP

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

8. RISK MANAGEMENT (Continued)

pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

PEP retains casualty risk up to \$250,000 per claim, including loss 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 \$5,000,000 in the aggregate year. Governments can elect additional coverage from \$2,000,000 with General Reinsurance Corporation, through contracts with PEP. 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.

Beginning in 2005, Travelers Indemnity Company 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 value. 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 (latest information available) was \$1,682,589.

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

Members may withdraw on each anniversary of the date they joined PEP. They must provide 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 contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

PEP's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 (latest information available):

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	<u>(15,875,741)</u>	<u>(15,994,168)</u>
Retained Earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>
<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	<u>(863,163)</u>	<u>(1,068,246)</u>
Retained Earnings	<u>\$4,262,163</u>	<u>\$3,375,086</u>

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

9. CONTINGENT LIABILITIES

The Village was not involved in any litigation claims as of December 31, 2007.

10. RELATED PARTY TRANSACTIONS

During 2006, it was noted that the Village paid Vickers's Construction \$2,000. Karen Vickers was the former Village clerk and her son was owner of Vickers's Construction during 2006.

The Village paid Matheney Services \$400 in 2006 and \$447 in 2007 for gasoline and hardware. Tim Matheney, owner of Matheney Services, was a council member in 2006 and 2007.

The Village also paid GT&J \$1,160 in 2006 and \$3,699 in 2007 for snow removal, mowing, and other services. Tonya Mayle, a council member for the Village, worked as a secretary for GT&J. Ms. Mayle was also the fiancé of the owner of GT&J.

Caudill & Associates, CPA's

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Village Council
Village of Chesterhill
P.O. Box 191
Chesterhill, Ohio 43728

We have audited the accompanying financial statements of Village of Chesterhill (the Village), Morgan County, as of and for the years ended December 31, 2007 and 2006, which collectively comprise the Village's financial statements, and have issued our report thereon dated June 20, 2008, wherein we noted the Village uses accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America, which was qualified since the Village did not classify receipts and disbursements for its 2007 and 2006 financial statements. 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.

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 auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the internal control over financial reporting. Accordingly, we do not express an opinion 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting as items 2007-006, 2007-007, 2007-008, and 2007-009.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Village of Chesterhill
Morgan County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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 internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses in internal control over financial reporting as items 2007-006, 2007-008, and 2007-009.

Compliance and Other Matters

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 grant agreements, 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 seven instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Responses as items 2007-001, 2007-002, 2007-003, 2007-004, 2007-005 and 2007-006, and 2007-008.

We noted certain noncompliance or other matters that we reported to the Village's management in a separate letter dated June 20, 2008.

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

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

Caudill & Associates, CPA's

Caudill & Associates, CPA's
June 20, 2008

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Noncompliance Citation – Ohio Rev. Code Section 5705.10

The Ohio Revised Code Section 5705.10, states that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose. Money that is paid into a fund must be used only for the purpose for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expense of another fund.

The Building Fund and the Theater Fund had negative fund balances of \$8,946 and \$3,230 respectively, in 2006; and negative fund balances of \$8,962 and \$1,133 respectively, in 2007.

The Village should monitor these funds to ensure that the funds are properly funded and/or expenditures from these funds properly reduced; thereby eliminating any occurrence of negative fund balances.

Village Response:

The Village Clerk will seek approval from Council to transfer funds from inactive enterprise funds to the Building and Theater Fund in order to eliminate any negative balances.

FINDING NUMBER 2007-002

Noncompliance Citation – Ohio Rev. Code Section 5705.36

The Ohio Revised Code Section 5705.36 (A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. ORC 5705.36 requires the village to obtain an increased amended certificate of estimated resources from the budget commission if the legislative authority intends to appropriate and expend excess revenue. The Ohio Revised Code Section 5705.36(A)(4) requires the Village to obtain a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.

In fiscal year 2007, appropriations for the State Highway Fund exceeded available resources by \$1,380.

The Village should establish procedures to ensure that reduced certificates of estimated resources are obtained and thereby that appropriations are reduced whenever revenues received will be less than the amount budgeted.

Village Response:

The Village Clerk is seeking further training in order to more effectively implement the use of appropriations.

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-003

Noncompliance Citation – Ohio Rev. Code Section 5705.39

The Ohio Revised Code Section 5705.39 requires that total appropriations from each fund shall not exceed the total estimated resources.

Appropriating funds in excess of amended certificates may lead to expenditures in excess of available fund balances.

In fiscal year 2006, appropriations for the Street Construction, Maintenance, and Repair fund exceeded its estimated resources by \$608 and in 2007, appropriations for the State Highway Improvement fund exceeded its estimated resources by \$1,857.

The Village should implement procedures to monitor its budget for each fund and appropriate funds only to the extent of their estimated resources.

Village Response:

The Village Clerk is seeking further training in order to more effectively implement the use of appropriations.

FINDING NUMBER 2007-004

Noncompliance Citation – Ohio Rev. Code Section 5705.41(B)

The Ohio Revised Code Section 5705.41(B) requires the Village to limit the expenditures for each fund to the appropriations.

Failure to limit expenditures for each fund to its appropriations may lead to expenditures in excess of available fund balances.

In fiscal year 2006, all funds except the General, Street Maintenance, and State Highway funds had expenditures in excess of their appropriations. In fiscal year 2007, all funds except the State Highway Improvement and Fire funds had expenditures in excess of their appropriations.

The Village should implement procedures to monitor the expenditures for each fund and compare them to the appropriations.

Village Response:

The Village Clerk is seeking further training in order to more effectively implement the use of appropriations.

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-005

Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)

Ohio Rev. Code Section 5705.41 (D)(1) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by Ohio Rev. Code Section 5705.41 (D)(1):

Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of the “then and now” certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$3,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

100% of the expenditures tested were not properly certified in 2006 and 2007. The Village does not use purchase orders.

We recommend the Village implement policies to ensure that all purchases first have monies certified by the Fiscal Officer before purchasing or ordering an item. This can be achieved by implementing the use of purchase orders. We also recommend the use of a “then and now” certificate in instances of emergency or absence of proper authority.

Village Response:

No response from Village officials.

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-006

Noncompliance Citation/Significant Deficiency/Material Weakness – Ohio Rev. Code Section 149.351

Ohio Rev. Code Section 149.351 establishes guidelines against the destruction or damage of records. All records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or part, except as provided by law or under rules adopted by the records commissions provided under Ohio Rev. Code Sections 149.38 to 149.42.

Voucher packages did not contain sufficient supporting documentation, such as original invoices, statements or vouchers for 11.5 percent of the nonpayroll transactions tested in 2006. Lack of supporting documentation could result in the Village making inappropriate disbursements for goods or services not actually received by the Village, and could allow errors and fraud to occur and go unnoticed for an extended period of time.

We recommend no payment be made from the Village treasury that is not supported by an approved voucher package that would include at a minimum, an original invoice or receipt and a properly executed purchase order.

Village Response:

No response from Village officials.

FINDING NUMBER 2007-007

Significant Deficiency – Duplicate Receipts

During the course of the audit, we noted the Village does not always issue duplicate receipts for donation and contributions received. Instead, those revenues are only evidence by a deposit to the bank.

Failure to issue pre-numbered duplicate receipts to contributors may lead to, among other things, misappropriation of Village's assets without timely detection.

To ensure the verifiability and traceability of the contributions and donations, the Village should issue duplicate receipts for any payments received. The duplicate receipts should be pre-numbered and issued to persons or organizations making the contributions. The Village should also keep a copy of the pre-numbered receipts and attach them to the copy of the deposit slips for future verification purpose.

Village Response:

The Village Clerk will begin issuing duplicate receipts for all donations and contributions received.

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-008

**Noncompliance Citation/Significant Deficiency/Material Weakness – Ohio Administrative Code
Section 117-2-02(A)**

Ohio Administrative Code Section 117-2-02(A) requires governments to maintain an accounting system and accounting records sufficient to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance related legal and contractual requirements and prepare financial statements required by Ohio Administrative Code 117-2-03. Per Ohio Administrative Code Section 117-2-02(D), accounting records that can help achieve these objectives should include:

1. Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate fund accounts for each type of receipt of each fund.
3. Appropriations ledger, which may assemble and classify disbursements into separate accounts for, at a minimum, each account listed in the appropriation resolution.

During the audit period, the Village Clerk maintained a cash journal by fund, but failed to maintain an appropriate receipts ledger or appropriations ledger. As a result, receipt and disbursement transactions could not be classified by source (receipt) or program (disbursement). Further, budgetary control was significantly weakened by the inability to monitor budgeted versus actual transactions.

Ohio Admin. Code Section 117-9-01 provides suggested account classifications. These accounts classify receipts by source (taxes or charges for services, for example) and classify disbursements by program (security of persons and property, for example) or object (personal services, for example).

Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

Village Response:

No response from Village officials.

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

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

FINDING NUMBER 2007-009

Significant Deficiency/Material Weakness – Segregation of Duties

The Clerk handles all financial record-keeping, including receipting and posting. The Clerk is the only authorized signatory on all checks. Potential fraud could result due to inadequate segregation of duties combined with only one required signature on checks written from the Village's primary operating account.

Due to inadequate segregation of duties, the Village should adopt a written policy that requires at a minimum two signatures on all checks over \$500 written from the Village's primary account. The second signature should be an individual that serves on the Village Council.

Village Response:

Clerk is bonded and council approved only one signature in November 2006 when the Village changed banking institutions.

**VILLAGE OF CHESTERHILL
MORGAN COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2005-001	Ohio Rev. Code Section 5705.10	No	Reissued, see finding 2007-001
2005-002	Ohio Rev. Code Section 5705.36(A)(2)	No	Reissued, see finding 2007-002
2005-003	Ohio Rev. Code Section 5705.39	No	Reissued, see finding 2007-003
2005-004	Ohio Rev. Code Section 5705.41(B)	No	Reissued, see finding 2007-004
2005-005	Ohio Rev. Code Section 5705.41(D)(1)	No	Reissued, see finding 2007-005
2005-006	26 C.F.R. Section 1.6041-2	Yes	N/A
2005-007	Reportable Condition/Material Weakness – Ohio Rev. Code Section 149.351	No	Reissued, see finding 2007-006
2005-008	Reportable Condition/Material Weakness – Ohio Administrative Code Section 117-2-02(A)	No	Reissued, see finding 2007-008
2005-009	Reportable Condition/Material Weakness – Monthly Reconciliations	Yes	N/A
2005-010	Reportable Condition/Material Weakness – Review of Records	Yes	N/A
2005-011	Reportable Condition/Material Weakness – Segregation of Duties	No	Reissued, see finding 2007-009
2005-012	Reportable Condition – Village employee holding various positions at once	Yes	N/A



Mary Taylor, CPA
Auditor of State

VILLAGE OF CHESTERHILL

MORGAN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 16, 2008**