

VILLAGE OF CHESTERHILL

MORGAN COUNTY

REGULAR AUDIT

JANUARY 1, 2008 THROUGH DECEMBER 31, 2009

YEARS AUDITED UNDER GAGAS: 2009 AND 2008



## **Caudill & Associates, CPAs**

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# Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Village of Chesterhill, Morgan County, prepared by Caudill & Associates, CPAs, for the audit period January 1, 2008 through December 31, 2009. 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

November 29, 2010

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VILLAGE OF CHESTERHILL  
MORGAN COUNTY

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## Independent Auditor's Report

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

To the Village Council:

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, 2009 and 2008. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008, 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, 2009 and 2008, or its changes in financial position or cash flows of its proprietary funds for the year 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

Also, in our opinion, except for the omission of receipts and disbursement classifications, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Chesterhill, Morgan County, as of December 31, 2009 and 2008, and its unclassified cash receipts and unclassified disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2010, 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, CPA's*

Caudill & Associates, CPA's

July 9, 2010

**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, 2009**

	<u>Balance 1/1/2009</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 12/31/2009</u>
<b>General</b>	\$ 21,717	\$ 47,963	\$ 47,256	\$ 22,424
<b><u>Special Revenue:</u></b>				
Street Construction, Maintenance and Repair	(1,221)	11,350	10,775	(646)
State Highway Improvement	1,244	659	206	1,697
Fire	2,780	3,451	5,269	962
Broadband	847	3,572	2,815	1,604
Parks and Recreation	(154)	1,480	1,456	(130)
Total Special Revenue	<u>3,496</u>	<u>20,512</u>	<u>20,521</u>	<u>3,487</u>
<b><u>Capital Projects:</u></b>				
Building Fund	(8,962)	-	-	(8,962)
Theatre Fund	(2,964)	3,273	3,484	(3,175)
Union Hall Renovation	3,081	-	-	3,081
Total Capital Projects	<u>(8,845)</u>	<u>3,273</u>	<u>3,484</u>	<u>(9,056)</u>
<b><u>Enterprise:</u></b>				
Water	20,446	183,676	173,199	30,923
Water Line Extension	5,210	-	-	5,210
Water Tower Improvement	10,534	-	-	10,534
Total Enterprise	<u>36,190</u>	<u>183,676</u>	<u>173,199</u>	<u>46,667</u>
<b>Total All Funds</b>	<b><u>\$ 52,558</u></b>	<b><u>\$ 255,424</u></b>	<b><u>\$ 244,460</u></b>	<b><u>\$ 63,522</u></b>

*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, 2008**

	<u>Balance 1/1/2008</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 12/31/2008</u>
<b>General</b>	\$ 24,506	\$ 49,233	\$ 52,022	\$ 21,717
<b><u>Special Revenue:</u></b>				
Street Construction, Maintenance and Repair	1,115	11,789	14,125	(1,221)
State Highway Improvement	579	759	94	1,244
Fire	4,867	5,127	7,214	2,780
Broadband	580	3,198	2,931	847
Parks and Recreations	1,761	2,881	4,796	(154)
Total Special Revenue	<u>8,902</u>	<u>23,754</u>	<u>29,160</u>	<u>3,496</u>
<b><u>Capital Projects:</u></b>				
Building Fund	(8,962)	-	-	(8,962)
Theatre Fund	(1,133)	4,325	6,156	(2,964)
Union Hall Renovation	3,081	-	-	3,081
Total Capital Projects	<u>(7,014)</u>	<u>4,325</u>	<u>6,156</u>	<u>(8,845)</u>
<b><u>Enterprise:</u></b>				
Water	25,016	164,362	168,932	20,446
Water Line Extension	5,210	-	-	5,210
Water Tower Improvement	10,534	-	-	10,534
Total Enterprise	<u>40,760</u>	<u>164,362</u>	<u>168,932</u>	<u>36,190</u>
<b>Total All Funds</b>	<b><u>\$ 67,154</u></b>	<b><u>\$ 241,674</u></b>	<b><u>\$ 256,270</u></b>	<b><u>\$ 52,558</u></b>

*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, 2009 AND 2008**

**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, 2009 AND 2008  
(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 receives 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, 2009 AND 2008  
(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 2009 and 2008 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>2009</u>	<u>2008</u>
Deposits:		
Demand Deposits	\$46,395	\$35,478
Investments:		
STAR Ohio	<u>17,127</u>	<u>17,080</u>
Total Deposits	<u>\$63,522</u>	<u>\$52,558</u>

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(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, 2009 and 2008 follows:**

**2009 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$73,001	\$47,963	(\$25,038)
Special Revenue	815	20,512	19,697
Capital Projects	-	3,273	3,273
Enterprise Funds	164,400	183,676	19,276
Total	\$238,216	\$255,424	\$17,208

**2009 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$59,400	\$47,256	\$12,144
Special Revenue	14,500	20,521	(6,021)
Capital Projects	1,000	3,484	(2,484)
Enterprise Funds	175,000	173,199	1,801
Total	\$249,900	\$244,460	\$5,440

**2008 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$55,783	\$49,233	(\$6,550)
Special Revenue	18,511	23,754	5,243
Capital Projects	-	4,325	4,325
Enterprise Funds	163,500	164,362	862
Total	\$237,794	\$241,674	\$3,880

**2008 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ -	\$52,022	(\$52,022)
Special Revenue	-	29,160	(29,160)
Capital Projects	-	6,156	(6,156)
Enterprise Funds	-	168,932	(168,932)
Total	\$ -	\$256,270	(\$256,270)

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

**4. COMPLIANCE**

- 1.) Contrary to Ohio Revised Code Section 5705.10, there were negative fund balances in several funds in 2009 and 2008.
- 2.) Contrary to Ohio Revised Code Section 5705.39, appropriations exceeded estimated resources in 2009.
- 3.) Contrary to the Ohio Revised Code Section 5705.41(B), expenditures exceeded appropriations in several funds in 2009 and 2008.
- 4.) Contrary to Ohio Revised Code Section 5705.41(D), expenditures were not properly certified in 2009 and 2008.
- 5.) Contrary to Ohio Revised Code Section 5705.14, transfers were not properly authorized transfers by resolution.
- 6.) Contrary to Ohio Revised Code Section 5705.38(C), the Village failed to appropriate below fund level.
- 7.) Contrary to Ohio Revised Code Section 5705.36 (A)(2), Capital Projects Funds had appropriations in excess of resources.
- 8.) Contrary to Ohio Revised Code Section 149.351, there was insufficient supporting documentation in 2008 to support expenditures.
- 9.) Contrary to Ohio Administrative Code Section 117-2-02(A) the Village 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, 2009 was as follows:

	<u>Principal</u>	<u>Interest</u>
Truck Loan	\$ 19,662	5.00%
Land Purchase Loan	2,059	8.50%
Ohio Water Development Authority Loan #1517	168,291	7.45%
Ohio Water Development Authority Loan #1518	17,439	6.51%
Ohio Water Development Authority Loan #3526	131,545	1.50%
Ohio Water Development Authority Loan #4248	181,154	1.50%
	<u>\$ 520,150</u>	

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

**6. DEBT (Continued)**

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

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:	Truck Loan	Land Purchase Loan	OWDA Loan 1517	OWDA Loan 1518	OWDA Loan 3526	OWDA Loan 4248
2010	\$4,327	\$2,226	\$27,468	\$2,738	\$7,042	\$10,082
2011	4,326	-	27,468	2,738	7,042	10,082
2012	4,326	-	27,468	2,738	7,042	10,082
2013	4,327	-	27,468	2,738	7,042	10,082
2014	4,326	-	27,468	2,738	7,042	10,082
2015-2019	1,082	-	96,137	9,538	35,210	50,410
2020-2024	-	-	-	-	35,210	50,410
2025-2029	-	-	-	-	35,210	50,410
2030-2034	-	-	-	-	17,605	50,410
2035-2039	-	-	-	-	-	4,268
Total	<u>\$22,714</u>	<u>\$2,226</u>	<u>\$233,477</u>	<u>\$23,228</u>	<u>\$158,445</u>	<u>\$256,318</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 2009 and 2008, members of OPERS contributed 10% of their gross salaries. The Village contributed an amount equal to 14% of participants' gross salaries. The Village has paid all employer contributions required through December 31, 2009.

**8. RISK 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.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

**8. RISK MANAGEMENT (Continued)**

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 to its members. American Risk Pooling Consultants, Inc. (ARPCO) division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEPE is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. 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 and Property Coverage

APEEP provide PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2008, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

The aforementioned casualty and property reinsurance agreement does 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.

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, 2008 and 2007 (the latest information available):

	<u>2008</u>	<u>2007</u>
Assets	\$35,769,535	\$37,560,071
Liabilities	<u>(15,310,206)</u>	<u>(17,340,825)</u>
Retained Earnings	<u>\$20,459,329</u>	<u>\$20,219,246</u>

At December 31, 2008 and 2007, respectively, the liabilities above include approximately \$13.8 million and \$15.9 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$12.9 million and \$15.0 million of unpaid claims to be billed to approximately 445 member governments in the future, as of December 31, 2008 and 2007, respectively. These amounts will be included in future contributions from members when the related claims are due for payment.

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they provide written notice of PEP 60 days in advance of the anniversary date. Upon withdrawals, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligations to PEP. 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.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

**9. CONTINGENT LIABILITIES**

The Village was not involved in any litigation claims as of December 31, 2009.

**10. RELATED PARTY TRANSACTIONS**

The Village paid GT&J Lawn care \$4,438 in 2008 and \$4,581 in 2009 for snow removal, mowing, and other services. Tonya Tabler, a council member for the Village, is the spouse of the owner of GT&J Lawn care.

**11. SUBSEQUENT EVENTS**

As of July 9, 2010, no subsequent events have been disclosed.



## Caudill & Associates, CPAs

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants  
Kentucky Society of Certified Public Accountants

### **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 of Chesterhill  
P.O. Box 191  
Chesterhill, Ohio 43728

To the Village Council:

We have audited the accompanying financial statements of the Village of Chesterhill, Morgan County, (the Village), as of and for the years ended December 31, 2009 and 2008, which collectively comprise the Village's financial statements, and have issued our report thereon dated July 9, 2010, wherein we noted the Village follows accounting practices the Auditor of States prescribes or permits 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 Government's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Government's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Government's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and timely corrected. We consider findings 2009-008 and 2009-009 described in the accompanying schedule of findings and responses to material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2009-010 through 2009-012 described in the accompanying schedule of findings and responses to be significant deficiencies.

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*

### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under Government Auditing Standards which are described in the accompanying schedule of findings and responses as items 2009-001 through 2009-009.

We also noted a certain matter not requiring inclusion in this report that we reported to the Village's management in a separate letter dated July 9, 2010.

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

*Caudill & Associates, CPA's*

Caudill & Associates, CPA's

July 9, 2010

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2009 AND 2008**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
----------------------------------------------------------------------------------------------------------

**FINDING NUMBER 2009-001**

**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.

In 2009 and 2008, respectively, Street Construction Fund, Parks and Recreation Fund, Building Fund, and Theater Fund had negative fund balances.

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 2009-002**

**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 2009, appropriations for the Street Construction Fund and State Highway Fund, exceeded its estimated resources.

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.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2009 AND 2008**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2009-003**

**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 2009, Street Fund, Theater Fund and Broadband fund had expenditures in excess of their appropriations. In fiscal year 2008, the Village did not file appropriations with the County Auditor, thus did not officially appropriate funds.

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.

**FINDING NUMBER 2009-004**

**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.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2009 AND 2008**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2009-004 (Continued)**

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 2009 and 2008. 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.

**FINDING NUMBER 2009-005**

**Noncompliance Citation – Ohio Rev. Code Section 5705.14**

Ohio Revised Code Section 5705.14 states no transfer can be made from one fund of a subdivision to any other fund, except in the case of transfers from the general fund, transfers can be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members. Transfers from the general fund require a resolution passed by a simple majority of the board members (i.e., a two thirds vote is not required for general fund transfers though a resolution passed by a simple majority is required. A simple majority constitutes a quorum of greater than 50% of the members.) [RC 5705.14 & .16]

In 2009 and 2008, the Village made transfers from several funds. No documentation was provided to indicate that the transfers were made by resolution of the council.

We recommend that the Village document authorization with resolution number in the minutes. As well, we also recommend that the Clerk and Council familiarize themselves with Ohio Revised Code requirements for transfers and advances.

**Village Response:**

No response from Village officials.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2009 AND 2008**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2009-006**

**Noncompliance Citation – Ohio Rev. Code Section 5705.38(C)**

Ohio Rev. Code 5705.38(C) requires the following minimum level of budgetary control for “subdivisions” other than schools: “Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services.”

During the audit procedures, it was noted that the Village made appropriations at the fund level. Appropriations did not include personal services as required per the Ohio Revised Code.

We recommend that the Village appropriate at the object level, and indicate the amount specifically appropriated for personal services.

**Village Response:**

No response from Village officials.

**FINDING NUMBER 2009-007**

**Noncompliance Citation – Ohio Rev. Code Section 5705.36 (A)(2)**

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. 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 2009, the Capital Projects Fund had appropriations in excess of their available resources. Failure to obtain reduced amended certificate, when actual revenues are less than the budgeted revenues, may lead to expenditures in excess of available fund balances.

We recommend the Village obtain a reduced certificate of estimated resources when it is determined that estimated receipts will be less than the actual receipts causing resources to fall below the level of appropriations. Approval of the modifications should be enacted and documented in the Village Council’s Minutes.

**Village Response:**

No response from Village officials.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2009 AND 2008**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2009-008**

**Noncompliance Citation/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 10 percent of the non-payroll transactions tested in 2008. 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 2009-009**

**Noncompliance Citation/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.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2009 AND 2008**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2009-009 (Continued)**

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.

**FINDING NUMBER 2009-010**

**Significant Deficiency – Accounting System**

During 2009 and 2008, the financial reports submitted to Auditor of State by the Village did not agree to the cash journal, indicating that reconciliations were not performed from the cash journal to the financial reports. As well, in 2009, the Village received a loan for a truck but did not record the proceeds and expenditures properly.

Reconciliation of all accounts between the financial reports and accounting system, should take place on a consistent basis throughout the year and at year end, to assure that all accounts are updated and agree. Failure to reconcile could result in a material misstatement on the changes in cash receipts, disbursements, and changes in fund balance. Reconciliation prevents or detects errors in the financial statements, which could be investigated and corrected.

We recommend that procedures be implemented to determine that the accounting system and financial reports are reconciled on a consistent basis to assure proper presentation of the activities of the Village and that all transactions are properly recorded.

**Village Response:**

No response from Village officials.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2009 AND 2008**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2009-011**

**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.

**FINDING NUMBER 2009-012**

**Significant Deficiency – 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, 2009 AND 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2007-001	Ohio Rev. Code Section 5705.10	No	Reissued, see finding 2009-001
2007-002	Ohio Rev. Code Section 5705.36(A)(2)	No	Reissued, see finding 2009-007
2007-003	Ohio Rev. Code Section 5705.39	No	Reissued, see finding 2009-002
2007-004	Ohio Rev. Code Section 5705.41(B)	No	Reissued, see finding 2009-003
2007-005	Ohio Rev. Code Section 5705.41(D)(1)	No	Reissued, see finding 2009-004
2007-006	Material Weakness – Ohio Rev. Code Section 149.351	No	Reissued, see finding 2009-008
2007-007	Significant Deficiency – Duplicate receipts	No	Reissued, see finding 2009-011
2007-008	Material Weakness – Ohio Administrative Code Section 117-2-02(A)	No	Reissued, see finding 2009-009
2007-009	Material Weakness – Segregation of Duties	No	Reissued, see finding 2009-012

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**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  
DECEMBER 9, 2010**