



Dave Yost • Auditor of State

**CHESTER TOWNSHIP
MORROW COUNTY**

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Dave Yost • Auditor of State

Chester Township
Morrow County
3875 Chester Township Rd. 178
Fredericktown, Ohio 43019

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Township 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. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 14, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Chester Township
Morrow County
3875 Chester Township Rd. 178
Fredericktown, Ohio 43019

To the Board of Trustees:

We have audited the accompanying financial statements of Chester Township, Morrow County, Ohio, (the Township) as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township 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 Township's larger (i.e. major) funds separately. While the Township 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 township to reformat their statements. The Township 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, 2011 and 2010 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2011 and 2010, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Chester Township, Morrow County, Ohio, as of December 31, 2011 and 2010, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 2, during 2011 the Township adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2012, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Dave Yost
Auditor of State

August 14, 2012

**CHESTER TOWNSHIP
MORROW COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Governmental Fund Types				Totals
	General	Special Revenue	Capital Projects	Permanent	(Memorandum Only)
Cash Receipts:					
Property and Other Local Taxes	\$ 80,435	\$ 173,414	\$ -	\$ -	\$ 253,849
Licenses, Permits, and Fees	7,064	10,650	-	-	17,714
Intergovernmental	24,213	119,046	-	-	143,259
Earnings on Investments	602	83	25	41	751
Miscellaneous	530	8,500	-	-	9,030
Total Cash Receipts	112,844	311,693	25	41	424,603
Cash Disbursements:					
Current:					
General Government	97,876	-	-	-	97,876
Public Safety	-	37,442	-	-	37,442
Public Works	863	162,712	-	-	163,575
Health	-	36,251	-	-	36,251
Capital Outlay	1,396	6,022	-	-	7,418
Debt Service:					
Redemption of Principal	10,397	-	-	-	10,397
Interest and Other Fiscal Charges	923	-	-	-	923
Total Cash Disbursements	111,455	242,427	-	-	353,882
Total Receipts Over Disbursements	1,389	69,266	25	41	70,721
Fund Cash Balances, January 1	221,992	434,549	732	27,327	684,600
Fund Cash Balances, December 31:					
Nonspendable	-	-	-	16,200	16,200
Restricted	-	503,815	757	11,168	515,740
Unassigned	223,381	-	-	-	223,381
Fund Cash Balances, December 31	\$ 223,381	\$ 503,815	\$ 757	\$ 27,368	\$ 755,321

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

**CHESTER TOWNSHIP
MORROW COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Governmental Fund Types				Totals
	General	Special Revenue	Capital Projects	Permanent	(Memorandum Only)
Cash Receipts:					
Property and Other Local Taxes	\$ 82,014	\$ 180,428	\$ -	\$ -	\$ 262,442
Licenses, Permits, and Fees	14,759	5,650	-	-	20,409
Intergovernmental	113,369	121,220	-	-	234,589
Earnings on Investments	1,145	215	-	146	1,506
Miscellaneous	184	10,300	-	-	10,484
Total Cash Receipts	211,471	317,813	-	146	529,430
Cash Disbursements:					
Current:					
General Government	93,790	-	-	-	93,790
Public Safety	-	37,355	-	-	37,355
Public Works	574	131,939	-	-	132,513
Health	2,438	45,569	-	-	48,007
Capital Outlay	19,573	6,338	-	-	25,911
Debt Service:					
Redemption of Principal	9,951	-	-	-	9,951
Interest and Other Fiscal Charges	1,369	-	-	-	1,369
Total Cash Disbursements	127,695	221,201	-	-	348,896
Total Receipts Over Disbursements	83,776	96,612	-	146	180,534
Other Financing Receipts/(Disbursements):					
Sale of Fixed Assets	-	774	-	-	774
Transfers-In	-	7,700	-	-	7,700
Transfers-Out	(7,700)	-	-	-	(7,700)
Total Other Financing Receipts/(Disbursements)	(7,700)	8,474	-	-	774
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements And Other Financing Disbursements	76,076	105,086	-	146	181,308
Fund Cash Balances, January 1	145,916	329,463	732	27,181	503,292
Fund Cash Balances, December 31	\$ 221,992	\$ 434,549	\$ 732	\$ 27,327	\$ 684,600

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

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Chester Township, Morrow County, Ohio, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides general governmental services including road and bridge maintenance and cemetery maintenance. The Township contracts with the Big Walnut Joint Fire District to provide fire services and emergency medical services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Note 8 to the financial statements provides additional information for this entity. This organization is:

Public Entity Risk Pool:

The Ohio Township Association Risk Management Authority (OTARMA) is a risk sharing pool available to all townships. OTARMA provides property and casualty coverage for its members.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Township values certificates of deposit and U.S. Savings Bonds at cost. Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

D. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are restricted as to use. The Township classifies its funds into the following types:

1. General Fund

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

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

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

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

Cemetery Fund – This fund receives property tax money and fees to maintain and repair Township cemeteries.

Fire District Fund – This fund receives property tax money to provide fire protection and emergency medical services to Township residents.

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Township had the following significant capital project fund:

Public Works Project Fund – This fund accounts for activity related to road resurfacing projects.

4. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Township had the following significant permanent fund:

Cemetery Endowment Fund – This fund receives interest earned on the nonexpendable corpus from trust agreements. These earnings are used for the general maintenance and upkeep of the Township's cemetery, as stated in the trust agreements.

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, function or object level of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

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 Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2011 and 2010 budgetary activity appears in Note 4.

F. Fund Balance

For December 31, 2011 fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (Continued)

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant, and Equipment

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. Change in Accounting Principle

For fiscal year 2011, the Township implemented Governmental Accounting Standard Board (GASB) Statement No. 54. Implementing GASB Statement No. 54 had no effect on fund balances previously reported.

3. Equity in Pooled Deposits and Investments

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

	2011	2010
Demand deposits	\$466,881	\$396,705
Certificates of deposit	119,953	119,502
Total deposits	586,834	516,207
U.S. Savings Bond	500	500
STAR Ohio	167,987	167,893
Total investments	168,487	168,393
Total deposits and investments	\$755,321	\$684,600

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

Investments: The U.S. Savings Bond is in the name of the Township and the bequest fund. The bond is kept by the fiscal officer in a locked safe.

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

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

4. Budgetary Activity

Budgetary activity for the years ending December 21, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$111,700	\$112,844	\$1,144
Special Revenue	320,100	311,693	(8,407)
Capital Projects	0	25	25
Permanent	0	41	41
Total	\$431,800	\$424,603	(\$7,197)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$243,610	\$111,455	\$132,155
Special Revenue	535,922	242,427	293,495
Capital Projects	732	0	732
Permanent	500	0	500
Total	\$780,764	\$353,882	\$426,882

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$170,325	\$211,471	\$41,146
Special Revenue	214,200	326,287	112,087
Capital Projects	0	0	0
Permanent	0	146	146
Total	\$384,525	\$537,904	\$153,379

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$235,910	\$135,395	\$100,515
Special Revenue	488,922	221,201	267,721
Capital Projects	732	0	732
Permanent	500	0	500
Total	\$726,064	\$356,596	\$369,468

Contrary to Ohio Rev. Code Section 5705.39, appropriations exceeded total estimated resources in the Road and Bridge fund in 2010 by \$31,930.

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

5. Property Tax

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

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

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

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

6. Debt

Debt outstanding at December 31, 2011 was as follows:

	Principal	Interest Rate
Road Equipment Bonds	\$12,722	5%

The Township issued road equipment bonds to finance the purchase of a new tractor and mower for Township road maintenance. The Township's taxing authority collateralized the bonds.

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

	Road Equipment Bonds
Year ending December 31:	
2012	\$10,377
2013	2,830
Total	\$13,207

7. Retirement Systems

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes this plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2011.

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

8. Risk Management

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

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

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of OTARMA and provides underwriting, claims, loss control, risk management, and reinsurance services for OTARMA. OTARMA is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2010, OTARMA retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2010 and 2009 (the latest information available):

	<u>2010</u>	<u>2009</u>
Assets	\$35,855,252	\$38,982,088
Liabilities	<u>(10,664,724)</u>	<u>(12,880,766)</u>
Net Assets	<u>\$25,190,528</u>	<u>\$26,101,322</u>

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$9.9 and \$12.0 million of estimated incurred claims payable. The assets above also include approximately \$9.5 and \$11.5 million of unpaid claims to be billed to approximately 940 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Township's share of these unpaid claims collectible in future years is approximately \$5,000.

**CHESTER TOWNSHIP
MORROW COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

8. Risk Management (Continued)

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

<u>Contributions to OTARMA</u>	
<u>2010</u>	<u>2009</u>
\$6,789	\$6,238

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, 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 obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Chester Township
Morrow County
3875 Chester Township Rd. 178
Fredericktown, Ohio 43019

To the Board of Trustees:

We have audited the financial statements of Chester Township, Morrow County, Ohio, (the Township) as of and for the year ended December 31, 2011 and 2010, and have issued our report thereon dated August 14, 2012, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. Furthermore, we noted during 2011 the Township adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 Township'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 Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

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 combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Township'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 as items 2011-001 and 2011-002.

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated August 14, 2012.

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

We intend this report solely for the information and use of management, the audit committee, Board of Trustees and others within the Township. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

August 14, 2012

**CHESTER TOWNSHIP
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2011-001

Material Noncompliance – Certification of Expenditures

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that 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 Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance 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 Township.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Thirty-eight percent of the transactions tested were not certified at the time the commitment was incurred and there was no evidence that the Township followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**CHESTER TOWNSHIP
MORROW COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

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

Material Noncompliance – Certification of Expenditures (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Township certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code to reduce the available appropriation.

Officials' Response:

The Fiscal Officer has made sure to correct purchase orders starting in 2012. She now puts a post-it note on the date on the invoice so she can check the purchase order dates and determine whether the Then and Now is needed. The Fiscal Officer doesn't always know when the employees or Trustees are purchasing items until she gets the bill from them and she will be careful to use the Then and Now when called for.

FINDING NUMBER 2011-002

Material Noncompliance – Appropriations Exceeding Estimated Resources

Ohio Rev. Code § 5705.39 states that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate of amended official estimate.

Total appropriations exceeded the total estimated resources in the Road and Bridge fund in 2010 by \$31,930.

We recommend the Township more closely monitor its appropriations in respect to its estimated resources.

Officials' Response:

As for appropriations exceeding the amounts certified by the County Auditor's Office, the Fiscal Officer thought amounts were correct when she received the Auditor's certificate stating they were in compliance. The Fiscal Officer will from now on go over the amounts with the Morrow County Auditor to make sure they are in compliance before turning amounts in.

**CHESTER TOWNSHIP
MORROW COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Expenditures Exceeding Appropriations	Yes	
2009-002	Certification of Expenditures	No	Not corrected. This comment is being repeated as Finding 2011-001.
2009-003	Financial Reporting	Yes	

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Dave Yost • Auditor of State

CHESTER TOWNSHIP

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 4, 2012**