



Dave Yost • Auditor of State

VILLAGE OF CHICKASAW
MERCER COUNTY

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Dave Yost • Auditor of State

Village of Chickasaw
Mercer County
P.O. Box 14
Chickasaw, Ohio 45826

To the Village Council Members:

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 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. 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

April 20, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Chickasaw
Mercer County
P.O. Box 14
Chickasaw, Ohio 45826

To the Village Council Members:

We have audited the accompanying financial statements of the Village of Chickasaw, Mercer County, (the Village) as of and for the years ended December 31, 2011 and 2010. 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. The Village 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 Village 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 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 requires 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 Governments 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, 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 Village 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 as of December 31, 2011 and 2010 and the reserves for encumbrances as of December 31, 2010 of the Village of Chickasaw, Mercer County, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1F, during 2011 the Village of Chickasaw, Mercer County 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 April 20, 2012, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Dave Yost
Auditor of State

April 20, 2012

**VILLAGE OF CHICKASAW
MERCER COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Other Local Taxes	\$33,658	\$986	\$34,644
Intergovernmental	36,373	16,867	53,240
Charges for Services	2,201		2,201
Fines, Licenses and Permits	100		100
Earnings on Investments	1,974	10	1,984
Total Cash Receipts	<u>74,306</u>	<u>17,863</u>	<u>92,169</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	7,738		7,738
Public Health Services	2,742		2,742
Leisure Time Activities	1,527		1,527
Community Environment	516		516
Basic Utility Services	4,684		4,684
Transportation	1,435	7,465	8,900
General Government	30,465		30,465
Capital Outlay	1,343		1,343
Debt Service:			
Principal Retirement		6,612	6,612
Total Cash Disbursements	<u>50,450</u>	<u>14,077</u>	<u>64,527</u>
Excess of Receipts Over (Under) Disbursements	<u>23,856</u>	<u>3,786</u>	<u>27,642</u>
Other Financing Receipts (Disbursements):			
Sale of Capital Assets	4,910		4,910
Other Financing Uses	(24)		(24)
Total Other Financing Receipts (Disbursements)	<u>4,886</u>		<u>4,886</u>
Net Change in Fund Cash Balances	28,742	3,786	32,528
Fund Cash Balances, January 1	<u>56,299</u>	<u>17,937</u>	<u>74,236</u>
Fund Cash Balances, December 31:			
Restricted		21,723	21,723
Assigned	1,850		1,850
Unassigned (Deficit)	83,191		83,191
Fund Cash Balances, December 31	<u>\$85,041</u>	<u>\$21,723</u>	<u>\$106,764</u>

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

**VILLAGE OF CHICKASAW
MERCER COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$711,204
Total Operating Cash Receipts	711,204
Operating Cash Disbursements:	
Personal Services	19,562
Employee Fringe Benefits	3,018
Contractual Services	20,506
Supplies and Materials	7,123
Other	9,159
Total Operating Cash Disbursements	59,368
Operating Income (Loss)	651,836
Non-Operating Receipts (Disbursements):	
Miscellaneous Receipts	178
Other Debt Proceeds	485,223
Capital Outlay	(493,844)
Principal Retirement	(94,771)
Other Financing Uses	(193)
Total Non-Operating Receipts (Disbursements)	(103,407)
Net Change in Fund Cash Balances	548,429
Fund Cash Balances, January 1	166,027
Fund Cash Balances, December 31	\$714,456

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

**VILLAGE OF CHICKASAW
MERCER COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$31,703	\$1,000		\$32,703
Intergovernmental	33,584	16,929		50,513
Charges for Services	1,801			1,801
Fines, Licenses and Permits	50			50
Earnings on Investments	639	24		663
Miscellaneous	1,058			1,058
Total Cash Receipts	<u>68,835</u>	<u>17,953</u>		<u>86,788</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	6,607			6,607
Public Health Services	3,413			3,413
Leisure Time Activities	1,421			1,421
Community Environment	779			779
Basic Utility Service	11,105			11,105
Transportation	23,257	26,110	\$3,900	53,267
General Government	33,004			33,004
Total Cash Disbursements	<u>79,586</u>	<u>26,110</u>	<u>3,900</u>	<u>109,596</u>
Total Receipts Over/(Under) Disbursements	<u>(10,751)</u>	<u>(8,157)</u>	<u>(3,900)</u>	<u>(22,808)</u>
Other Financing Receipts / (Disbursements):				
Proceeds from Sale of Public Debt:				
Sale of Notes			3,900	3,900
Advances-In	16,320			16,320
Other Financing Uses	(81)			(81)
Total Other Financing Receipts / (Disbursements)	<u>16,239</u>		<u>3,900</u>	<u>20,139</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	5,488	(8,157)		(2,669)
Fund Cash Balances, January 1	<u>50,811</u>	<u>26,094</u>		<u>76,905</u>
Fund Cash Balances, December 31	<u>\$56,299</u>	<u>\$17,937</u>	<u>\$0</u>	<u>\$74,236</u>
Reserve for Encumbrances, December 31	<u>\$1,325</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,325</u>

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

**VILLAGE OF CHICKASAW
MERCER COUNTY**

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

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$165,530
Total Operating Cash Receipts	165,530
Operating Cash Disbursements:	
Personal Services	15,812
Employee Fringe Benefits	1,531
Contractual Services	17,082
Supplies and Materials	7,617
Other	6,673
Total Operating Cash Disbursements	48,715
Operating Income/(Loss)	116,815
Non-Operating Receipts/(Disbursements):	
Intergovernmental	138,676
Other Debt Proceeds	147,726
Capital Outlay	(165,390)
Redemption of Principal	(211,047)
Other Non-Operating Cash Disbursements	(2,721)
Total Non-Operating Cash Disbursements	(92,756)
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	24,059
Advances-Out	(16,320)
Net Receipts Over/(Under) Disbursements	7,739
Fund Cash Balances, January 1	158,288
Fund Cash Balances, December 31	\$166,027
Reserve for Encumbrances, December 31	\$17,949

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

**VILLAGE OF CHICKASAW
MERCER 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 the Village of Chickasaw, Mercer County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park operations, and street construction and repair. The Village contracts with the Mercer County Sheriff's department to provide security of persons and property. The Village contracts with Mercer County Emergency Management Services for ambulance services.

The Village participates in the Public Entities Pool of Ohio. Note 7 to the financial statements provides additional information for this entity.

The Village's management believes these financial statements present all activities for which the Village 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 Village 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 Village maintains all of its funds in an interest bearing checking account and certificates of deposit.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

**VILLAGE OF CHICKASAW
MERCER COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise funds). The Village had the following significant capital project fund in 2010:

Ohio Public Works Commission – Street Project – This fund accounted for the final proceeds from the 2009 street project.

4. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

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

Sewer Plant Aeration Fund – This fund received proceeds from the Ohio Water Development Authority - Waste Water Treatment Plant ARRA funds to provide improvements to the waste water system and add three new solarbees.

Sewer Expansion Project – This fund receives proceeds from the Ohio Water Development Authority to expand the waste water system to Maria Stein.

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated.

**VILLAGE OF CHICKASAW
MERCER COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Budgetary Process (continued)

A summary of 2011 and 2010 budgetary activity appears in Note 3.

F. Fund Balance

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

1. Non-spendable

The Village classifies assets as *non-spendable* 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

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends 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 Village Council or a Village official delegated that authority by resolution, or by State Statute.

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 Village 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.

**VILLAGE OF CHICKASAW
MERCER COUNTY**

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

G. Property, Plant, and Equipment

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

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

The Village 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	\$240,691	\$193,512
Certificates of deposit	580,529	46,751
Total deposits	\$821,220	\$240,263

Deposits: Deposits are insured by the Federal Depository Insurance Corporation, or collateralized by securities specifically pledged by the financial institution to the Village, or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 80,138	\$ 79,216	(\$ 922)
Special Revenue	18,100	17,863	(237)
Enterprise	1,318,600	1,196,605	(121,995)
Total	\$1,416,838	\$1,293,684	(\$123,154)

2011 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 96,850	\$ 52,324	\$ 44,526
Special Revenue	28,000	14,077	13,923
Enterprise	821,250	648,176	173,074
Total	\$946,100	\$714,577	\$231,523

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 81,493	\$ 85,155	\$ 3,662
Special Revenue	18,100	17,953	(147)
Capital Projects	3,900	3,900	0
Enterprise	521,984	451,932	(70,052)
Total	\$625,477	\$558,940	(\$66,537)

2010 Budgeted vs. Actual Budgetary Basis Expenditures

**VILLAGE OF CHICKASAW
MERCER COUNTY**

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

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$112,890	\$ 80,992	\$ 31,898
Special Revenue	34,150	26,110	8,040
Capital Projects	3,900	3,900	0
Enterprise	615,379	462,142	153,237
Total	<u>\$766,319</u>	<u>\$573,144</u>	<u>\$193,175</u>

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council 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.

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

5. DEBT

Debt outstanding at December 31, 2011 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Sewer Loan	\$1,059,311	0%
Ohio Water Development Authority Lagoon Expansion Loan	\$472,273	0%
Ohio Public Works Commission Loan 2005	\$24,500	0%
Ohio Public Works Commission Loan 2009	191,756	0%
Total	<u>\$1,747,840</u>	

The Ohio Water Development Authority (OWDA) sewer loan relates to a central gravity sewer system with two lift stations and a wastewater treatment plant consisting of three aerated lagoons the Ohio Environmental Protection Agency mandated. The OWDA approved up to \$1,462,020 in loans to the Village for this project. The Village will repay the loans in semiannual installments of \$35,310, over 20 years. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Water Delopment Authority Lagoon Expansion Loan relates to the sewer system being expanded to into the Maria Stein area. The OWDA approved up to \$632,482 in loans to the Village for the project and will repay the loan in semi-annual payments over 20 years. Repayment of the loan will commence when the project is complete. An amortization schedule for this OWDA loan is not available until the project is completed and the final amount of the loan is set.

The Ohio Public Works Commission (OPWC) 2005 loan relates to a central gravity sewer system with two lift stations and a wastewater treatment plant consisting of three aerated lagoons the Ohio Environmental Protection Agency mandated. The OPWC approved a \$35,000 loan to the Village for this project. The Village will repay the loan in semiannual installments of \$875 over 20 years.

The Ohio Public Works Commission (OPWC) 2009 loan relates to various street reconstructions. The OPWC approved a \$194,468 in loans to the Village for the project and will repay the loan in semi-annual payments of \$3,306 over 30 years.

**VILLAGE OF CHICKASAW
MERCER COUNTY**

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

5. DEBT (Continued)

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

Year ending December 31:	OWDA Sewer Loan	OPWC Loan 2005	OPWC Loan 2009
2012	\$ 70,621	\$ 1,750	\$ 6,612
2013	70,621	1,750	6,612
2014	70,621	1,750	6,612
2015	70,621	1,750	6,612
2016	70,621	1,750	6,612
2017-2021	353,103	8,750	33,060
2022-2026	353,103	7,000	33,060
2027-2031			33,060
2032-2036			33,060
2037-2040			26,456
Total	<u>\$1,059,311</u>	<u>\$24,500</u>	<u>\$191,756</u>

6. RETIREMENT SYSTEMS

The Village's officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes these 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 Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

7. 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.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments as of April 2011. PEP 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 PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP 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 provides 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, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

**VILLAGE OF CHICKASAW
MERCER COUNTY**

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

7. RISK MANAGEMENT (Continued)

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.

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, 2010 and 2009 (the latest information available):

	2010	2009
Assets	\$34,952,010	\$36,374,898
Liabilities	(14,320,812)	(15,256,862)
Net Assets	\$20,631,198	\$21,118,036

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$12.9 million and \$14.1 million of estimated incurred claims payable. The assets above also include approximately \$12.4 million and \$13.7 million of unpaid claims to be billed to approximately 454 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, 2011, the Village's share of these unpaid claims collectible in future years is approximately \$6,000.

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

Contributions to PEP	
2011	2010
\$6,942	\$0

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP 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 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.

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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*

Village of Chickasaw
Mercer County
P.O. Box 14
Chickasaw, Ohio 45826

To the Village Council Members:

We have audited the financial statements of the Village of Chickasaw, Mercer County (the Village) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 20, 2012 wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and, the Village adopted Governmental Accounting Standard Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011. We also noted the Village 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 Village 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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, we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 finding 2011-001 described in the accompanying schedule of findings to be a material weakness.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated April 20, 2012.

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

April 20, 2012

**VILLAGE OF CHICKASAW
MERCER 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 Weakness – Classification of Village’s Transaction

The Village of Chickasaw entered into an agreement with a vendor for Waste Water Treatment Plant (WWTP) Improvements in 2010. A loan from the Ohio Water Development Authority (OWDA) was approved up to \$151,794. \$138,676 was actually drawn down on this loan. The Village subsequently received an ARRA loan forgiveness on this loan amount in 2010. The Village also entered into an agreement with the Ohio Water Development Authority (OWDA) for a Lagoon Expansion Design in 2010 for up to \$50,000. That loan was then rolled into the OWDA Lagoon Expansion Loan in 2011 which was approved for up to \$632,482.

- The Village received \$138,676 in loan proceeds from OWDA in 2010 for the WWTP Improvements project. The loan proceeds were posted as intergovernmental revenue instead of other debt proceeds. Later in 2010, the Village received an ARRA loan forgiveness that paid off the OWDA Improvement loan for \$138,676 that was never recorded on the Villages books.
- The Village received \$9,050 in 2010 and \$12,950 in 2011 for the OWDA Lagoon Expansion Design Loan proceeds that were posted as intergovernmental revenue instead of other debt proceeds. The loan was subsequently rolled into the OWDA Lagoon Expansion Loan in 2011. The principal payment of \$22,400 was never recorded on the books.
- Also in 2011, the Village received additional loan proceeds of \$449,873 for the OWDA Lagoon Expansion Project. Those loan proceeds were posted as intergovernmental revenue instead of other debt proceeds.

The accompanying financial statements reflect the required reclassifications and adjustments to correctly present the Capital Project Fund and Enterprise Fund Type financial activity for 2011 and 2010.

In 2010, the Village Council approved to repay an outstanding advance from 2009, but posted the repayment of the advance for \$16,320 as a fund balance adjustment to the General and Water Fund. This adjustment is also reflected in the accompanying financial statements.

The failure to accurately record transactions limits the ability of Village Council to make informed decisions regarding operations and results in inaccurate information for users of the Village’s financial reports.

To properly present and report the activity on the financial statements the Village should review the Uniform Accounting Network (UAN) Chart of Accounts and record transactions according to the proper fund/receipt/expenditure account code descriptions to better reflect the actual financial activity.

Client Response:

The comment was taken under advisement and the clerk will ensure proper classification.

VILLAGE OF CHICKASAW
MERCER 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	Classification of Expenditures	No	Repeated as 2011-001



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VILLAGE OF CHICKASAW

MERCER 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
MAY 29, 2012