



# Balestra, Harr & Scherer, CPAs, Inc.

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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## VILLAGE OF CHESAPEAKE LAWRENCE COUNTY

### REGULAR AUDIT

For the Years Ended December 31, 2012 and 2011  
Fiscal Years Audited Under GAGAS: 2012 and 2011





# Dave Yost • Auditor of State

Village Council  
Village of Chesapeake  
P.O. Box 388  
Chesapeake, Ohio 45619

We have reviewed the *Independent Auditor's Report* of the Village of Chesapeake, Lawrence County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2011 through December 31, 2012. 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 Chesapeake is responsible for compliance with these laws and regulations.

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

Dave Yost  
Auditor of State

June 18, 2013

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**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY, OHIO**

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For the Years Ended December 31, 2012 and 2011

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# Balestra, Harr & Scherer, CPAs, Inc.

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## Independent Auditor's Report

Village of Chesapeake  
Lawrence County  
P.O. Box 388  
Chesapeake, Ohio 45619

To the Village Council:

### Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Village of Chesapeake, Lawrence County, (the Village), as of and for the years ended December 31, 2012 and 2011.

### Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012 and 2011, or changes in financial position thereof for the years then ended.

### **Opinion on Regulatory Basis of Accounting**

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Village of Chesapeake, Lawrence County, as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

### **Emphasis of Matter**

As described in Note 8 to the financial statements, during 2011, the Village adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2013, on our consideration of the Village's internal control over financial reporting and on 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 internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standard* in considering the Village's internal control over financial reporting and compliance.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
May 15, 2013

VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property and Local Taxes	\$ 21,906	\$ 25,103	\$ -	\$ 47,009
Intergovernmental	26,864	63,929	68,660	159,453
Fines, Licenses, and Permits	158,417	4,316	-	162,733
Earnings on Investments	51	7	-	58
Miscellaneous	6,646	6,403	-	13,049
	<u>213,884</u>	<u>99,758</u>	<u>68,660</u>	<u>382,302</u>
Total Cash Receipts				
	213,884	99,758	68,660	382,302
<b>Cash Disbursements:</b>				
Current:				
Security of Persons & Property	122,050	27,354	-	149,404
Leisure Time Activities	-	909	-	909
Transportation	-	58,549	-	58,549
General Government	106,104	-	-	106,104
Capital Outlay	-	4,098	83,312	87,410
Debt Service:				
Redemption of Principal	-	16,444	-	16,444
Interest and Fiscal Charges	-	5,499	-	5,499
	<u>228,154</u>	<u>112,853</u>	<u>83,312</u>	<u>424,319</u>
Total Cash Disbursements				
	228,154	112,853	83,312	424,319
Total Cash Receipts Over/(Under) Cash Disbursements	(14,270)	(13,095)	(14,652)	(42,017)
<b>Other Financing Receipts and (Disbursements):</b>				
Proceeds from Sales of Notes	-	-	14,652	14,652
Other Financing Sources	-	3,556	-	3,556
	<u>-</u>	<u>3,556</u>	<u>14,652</u>	<u>18,208</u>
Total Other Financing Receipts/(Disbursements)				
	-	3,556	14,652	18,208
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(14,270)	(9,539)	-	(23,809)
Fund Cash Balances, January 1	24,127	92,374	\$ -	116,501
<b>Fund Cash Balances, December 31</b>				
Restricted	-	82,835	-	82,835
Unassigned	9,857	-	-	9,857
	<u>9,857</u>	<u>-</u>	<u>-</u>	<u>9,857</u>
<b>Fund Cash Balances, December 31</b>	<u>\$ 9,857</u>	<u>\$ 82,835</u>	<u>\$ -</u>	<u>\$ 92,692</u>

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

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BASIS FUND BALANCES  
AGENCY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Agency</u>
<b>Non-Operating Cash Receipts/Disbursements</b>	
Other Non-operating Receipts	191,795
Other Non-operating Disbursements	<u>(180,327)</u>
Net Cash Receipts Over/(Under) Cash Disbursements	<u>11,469</u>
Fund Cash Balances, January 1	<u>2,648</u>
<b>Fund Cash Balances, December 31</b>	<u><u>\$ 14,117</u></u>

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

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property and Local Taxes	\$ 20,475	\$ 28,259	\$ -	\$ 48,734
Intergovernmental	38,308	55,728	240,652	334,688
Fines, Licenses, and Permits	131,905	5,268	-	137,173
Earnings on Investments	91	22	-	113
Miscellaneous	25,504	17,001	-	42,505
	<u>216,283</u>	<u>106,278</u>	<u>240,652</u>	<u>563,213</u>
<b>Total Cash Receipts</b>				
	<u>216,283</u>	<u>106,278</u>	<u>240,652</u>	<u>563,213</u>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons & Property	112,578	27,625	-	140,203
Leisure Time Activities	-	1,751	-	1,751
Transportation	-	68,280	-	68,280
General Government	94,527	-	-	94,527
Capital Outlay	5,993	2,404	263,589	271,986
Debt Service:				
Redemption of Principal	7,502	12,547	-	20,049
Interest and Fiscal Charges	-	4,283	-	4,283
	<u>220,600</u>	<u>116,890</u>	<u>263,589</u>	<u>601,079</u>
<b>Total Cash Disbursements</b>				
	<u>220,600</u>	<u>116,890</u>	<u>263,589</u>	<u>601,079</u>
Total Cash Receipts Over/(Under) Cash Disbursements	(4,317)	(10,612)	(22,937)	(37,866)
<b>Other Financing Receipts and (Disbursements):</b>				
Proceeds from Sale of Notes	-	-	22,937	22,937
Transfers-In	-	10,000	-	10,000
Transfers-Out	(10,000)	-	-	(10,000)
	<u>(10,000)</u>	<u>10,000</u>	<u>22,937</u>	<u>22,937</u>
<b>Total Other Financing Receipts/(Disbursements)</b>				
	<u>(10,000)</u>	<u>10,000</u>	<u>22,937</u>	<u>22,937</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(14,317)	(612)	-	(14,929)
Fund Cash Balances, January 1	38,444	92,986	-	131,430
	<u>38,444</u>	<u>92,986</u>	<u>-</u>	<u>131,430</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		92,374	-	92,374
Unassigned	24,127	-	-	24,127
	<u>24,127</u>	<u>-</u>	<u>-</u>	<u>24,127</u>
<b>Fund Cash Balances, December 31</b>	<u>\$ 24,127</u>	<u>\$ 92,374</u>	<u>\$ -</u>	<u>\$ 116,501</u>

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

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BASIS FUND BALANCES  
AGENCY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Agency</u>
<b>Non-Operating Cash Receipts/Disbursements</b>	
Other Non-operating Receipts	165,409
Other Non-operating Disbursements	<u>(167,938)</u>
Net Cash Receipts Over/(Under) Cash Disbursements	<u>(2,529)</u>
Fund Cash Balances, January 1	<u>5,177</u>
<b>Fund Cash Balances, December 31</b>	<u><u>\$ 2,648</u></u>

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

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**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 Chesapeake, Lawrence County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services, including maintenance of roads and police services.

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. Cash Deposits**

The Village values cash at cost.

**D. Fund Accounting**

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

**1. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**2. Special Revenue Funds**

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. 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.

Fire Levy Fund - This fund receives property tax money to provide fire protection for the Village residents.

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**1. Summary of Significant Accounting Policies (Continued)**

**3. Capital Project Funds**

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project funds:

OPWC Grant Fund – This fund receives monies from Lawrence County and the Ohio Public Works Commission for specific road repair and improvement projects within the Village.

**4. Fiduciary Funds (Agency Fund)**

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for the activities of the Village's Mayor's Court.

**E. Budgetary Process**

The Ohio Revised Code requires that each fund (except certain agency funds) 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. 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. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2012 and 2011 budgetary activity appears in Note 3.

**F. Fund Balance**

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:

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**1. Summary of Significant Accounting Policies (Continued)**

**1. Nonspendable**

The Village 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**

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.

**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.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**2. Equity in Pooled Deposits**

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:

	2012	2011
Demand deposits	\$106,809	\$119,149
Total deposits	106,809	119,149

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation.

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2012 and December 31, 2011 follows:

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$199,966	\$213,884	\$13,918
Special Revenue	58,050	103,314	45,264
Capital Projects	0	83,312	83,312
Total	\$258,016	\$400,510	\$142,494

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$243,455	\$228,154	\$15,301
Special Revenue	192,113	112,853	79,260
Capital Projects	200,213	83,312	116,901
Total	\$635,781	\$424,319	\$211,462

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$199,420	\$216,283	\$16,863
Special Revenue	116,383	116,278	(105)
Capital Projects	489,628	263,589	(226,039)
Total	\$805,431	\$596,150	(\$209,281)

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**3. Budgetary Activity (Continued)**

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$237,865	\$230,600	\$7,265
Special Revenue	207,368	116,890	90,478
Capital Projects	489,628	263,589	226,039
Total	\$934,860	\$611,079	\$323,781

**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.

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.

**5. Debt**

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
City National Bank Loan	\$86,519	4%
OPWC Loan CU05I	\$40,000	0%
OPWC Loan CT54K	\$12,581	0%
Lawrence County Commissioners Note	34,369	6%
Total	\$173,469	

The City National Bank Loan relates to the purchase of a new fire truck, purchased in 2010. The loan was repaid in monthly installments of \$1,273.03, including interest for 4 months of 2005, and then the Village obtained a new City National Bank Loan on May 24, 2005 to make a balloon payment in the amount of \$151,732.41 to pay off the debt. The loan was originally scheduled to be repaid in monthly installments of \$1,127.08, including interest, over a period of 59 months. In 2009, the loan was extended until 2020. The loan is collateralized by the fire truck.

OPWC loan CU05I was for repair of a landslide and is payable in semi-annual installments of \$1,250 over a period of 20 years. OPWC loan CT54K was also for the repair of a landslide and is payable in semi-annual installments of \$381.23 over a period of 20 years. These loans originated in 2008.

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**5. Debt (Continued)**

The Lawrence County Commissioners Note's purpose is to finance the 10% local portion of an OPWC grant project for repair work on North Huntington Heights. The yearly obligation is one payment of \$5,112.48, including interest. Lawrence County has agreed to pay for half of this obligation each year in the amount of \$2,556.24 and Union Township, Lawrence County has agreed to pay \$1,000 per year to be applied to principal only. Debt obligations were incurred as the Lawrence County Commissioners made the local share payments of the OPWC project to the contractors, the amounts paid were \$22,937 and \$14,652 in 2011 and 2012, respectively. Principal and interest payments are being made from the Street fund.

Matured obligations during the audit period include: Backhoe loan that was paid in full in July 2011 and a police cruiser lease-purchase was paid in full in January of 2011. Prior year note disclosures had incorrect outstanding principal balances as of December 31, 2010 for both of the matured obligations.

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

Year ending December 31:	City National			Lawrence County
	Bank Loan	OPWC CU05I	OPWC CT54K	Commissioners Note
2013	\$13,568	\$2,500	\$762	\$5,112
2014	13,568	2,500	762	5,112
2015	13,568	2,500	762	5,112
2016	13,568	2,500	762	5,112
2017	13,568	2,500	762	5,112
2018-2022	32,195	12,500	3,812	20,450
2023-2027		12,500	3,812	
2028-2029		2,500	1,147	
Total	<u>\$100,035</u>	<u>\$40,000</u>	<u>\$12,581</u>	<u>\$46,010</u>

**6. Retirement Systems**

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

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, 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, 2012.

**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. 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

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**7. Risk Management (Continued)**

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.

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, 2011 and 2010 (the latest information available):

	<u>2011</u>	<u>2010</u>
Assets	\$33,362,404	\$34,952,010
Liabilities	<u>(14,187,273)</u>	<u>(14,320,812)</u>
Net Assets	<u>\$19,175,131</u>	<u>\$20,631,198</u>

At December 31, 2011 and 2010, respectively, the liabilities above include approximately \$13 million and \$12.9 million of estimated incurred claims payable. The assets above also include approximately \$12.1 million and \$12.4 million of unpaid claims to be billed to approximately 455 member governments in the future, as of December 31, 2011 and 2010, 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 \$11,266.

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**

	<u>2012</u>	<u>2011</u>
	\$10,802	\$12,246

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.

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**8. Fund Balances**

The Village implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on the fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Special Revenue Funds	Total Governmental Funds
December 31, 2011			
<b>Restricted for</b>			
Street Construction & Maintenance	\$ -	\$10,290	\$10,290
Motor Vehicle & License	-	2,338	2,338
Highways	-	3,603	3,603
Mayor's Court Computers	-	6,897	6,897
Parks/Recreation	-	4,127	4,127
Law Enforcement	-	12,131	12,131
Fire	-	52,989	52,989
Total Restricted	-	92,374	92,374
<b>Unassigned</b>	24,127	-	24,127
Total Fund Balances	\$24,127	\$92,374	\$116,501
December 31, 2012			
<b>Restricted for</b>			
Street Construction & Maintenance	\$ -	\$7,977	\$7,977
Motor Vehicle & License	-	2,974	2,974
Highways	-	1,217	1,217
Mayor's Court Computers	-	8,144	8,144
Parks/Recreation	-	4,460	4,460
Law Enforcement	-	3,881	3,881
Fire	-	54,182	54,182
Total Restricted	-	82,835	82,835
<b>Unassigned</b>	9,857	-	9,857
Total Fund Balances	\$9,857	\$82,835	\$92,692

**9. Compliance**

Contrary to Ohio law the Village did not properly certify funds prior to expending them.

Contrary to Ohio law, the Village did not maintain all accounting records.



# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Village of Chesapeake  
Lawrence County  
P.O. Box 388  
Chesapeake, Ohio 45619

To the Village Council:

We have audited, in accordance with the auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Village of Chesapeake, Lawrence County, (the Village) as of and for the years ended December 31, 2012 and 2011 and the related notes to the financial statements, and have issued our report thereon dated May 15, 2013, wherein we noted the Village followed accounting and financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, described in Note 1 and implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

### Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. 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 combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider finding 2012-003 described in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-001 described in the accompanying schedule of findings to be a significant deficiency.

### 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, opining

**Compliance and Other Matters (Continued)**

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 2012-001 and 2012-002.

**Entity's Response to Findings**

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

**Purpose of this Report**

This report only describes the scope of our internal control testing and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
May 15, 2013

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY  
DECEMBER 31, 2012 AND 2011  
SCHEDULE OF FINDINGS**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2012-001**

**Material Noncompliance/ Significant Deficiency**

Ohio Administrative Code Section 117-2-02A directs all public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, and analyze, classify, record and report its transactions, maintain accountability for the related assets, and prepare financial statements required by Rule 117-2-03 of the OAC. OAC Section 117-2-02D allows the records to be maintained manually or in a computerized format and requires the following: 1) Cash journal with the amount, date, receipts number, check number, account code and any other information necessary to properly classify the transaction; 2) Receipts ledger to assemble and classify receipts into separate accounts for each type of receipt of each fund consisting of the amount, date, name of the payer, purpose, receipt number and other information necessary to record the transaction on this ledger, and; 3) Appropriation ledger to assemble and classify disbursements into separate accounts for, at a minimum, each account listed in the appropriations resolution. The amount, date, fund, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursements, uncommitted balance of appropriations and any other information required may be inter in the appropriate columns.

A cash journal for the Mayor's Court was not accessible to the auditors for the month of January 2011.

We recommend the Village maintain all records applicable to OAC 117-2-02A in relation to Mayor's Court.

**Client Response:** The Village is aware of this.

**FINDING NUMBER 2012-002**

**Material Noncompliance**

Ohio Rev. Code, Section 5705.41 (D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer 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.

This section also provides two "exceptions" to the above requirements:

A. 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 Village can authorize the drawing of a warrant for the payment or the amount due. The Village can authorize the drawing of a warrant for the payment of the amount due. The Village 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 maybe 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 Village.

B. 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. 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 on particular line item appropriation.

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY  
DECEMBER 31, 2012 AND 2011  
SCHEDULE OF FINDINGS  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2012-002 (Continued)**

C. Super Blanket Certificate – The Village 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 reasonable 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.

The availability of funds was not certified for a portion of the expenditures tested for 2011 and 2012. Failure to properly certify funds could result in overspending and negative fund balances.

The Village should certify purchases to which 5705.41(D) applies. The most convenient method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Client Response:** The Village will be more observant in the future.

**FINDING NUMBER 2012-003**

**Material Weakness**

Accurate financial reporting is an important part of the Village’s overall purpose. Financial reporting requires internal controls in place to help ensure accuracy of reporting.

The Village had numerous adjustments and reclassifications due to errors noted in the receipting and disbursing process. The following areas had audit adjustments and reclassifications made to the Village’s financial statements:

- Intergovernmental Revenue
- Debt Proceeds
- Other Financing Sources
- Other Financing Uses
- General Government Expense
- Capital Outlay
- Security of Persons and Property
- Principal & Interest

The audited financial statements and Village records have been adjusted for the misstatements above.

The aforementioned errors were the result of a lack of internal controls of financial reporting. This lack of internal control over financial reporting exists primarily due to the recent implementation of accounting software at the Village.

The presentation of materially incorrect financial statements is the responsibility of management. Lack of a properly presented financial statements review process could inhibit its financial accountability to both the public and the Council, which they may use to facilitate Village decisions.

We recommend the Village implement internal control procedures that enable management to identify, prevent, detect and correct potential misstatements in the financial statements.

**Client Response:** Adjustments have been made to be in compliance.

**VILLAGE OF CHESAPEAKE  
LAWRENCE COUNTY  
DECEMBER 31, 2012 AND 2011**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2010-001	Material Non-compliance / Material Weakness – OAC 117-2-02A	No	Reissued as material noncompliance/significant deficiency 2012-001
2010-002	ORC Section 5705.41(B) for disbursements exceeding appropriations.	Yes	
2010-003	ORC Section 5705.39 for appropriations exceeding estimated resources	Yes	
2010-004	ORC Section 5705.36(A)(4) for appropriations exceeding actual resources	No	Reissued as a verbal citation
2010-005	ORC Section 5705.41(D) – obligation of funds before encumbrance	No	Reissued as material noncompliance 2012-002

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# Dave Yost • Auditor of State

**VILLAGE OF CHESAPEAKE**

**LAWRENCE 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  
JULY 2, 2013**