

VILLAGE OF CHESTERHILL

MORGAN COUNTY

REGULAR AUDIT

JANUARY 1, 2004 THROUGH DECEMBER 31, 2005

FISCAL YEAR AUDITED UNDER GAGAS: 2004 & 2005

**Caudill & Associates, CPA's**

725 5<sup>th</sup> Street  
Portsmouth, OH 45662





# Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Village of Chesterhill, Morgan County, prepared by Caudill & Associates, CPA's, for the audit period January 1, 2004 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

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

Mary Taylor, CPA  
Auditor of State

April 16, 2007

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Village of Chesterhill  
Morgan County, Ohio

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Member American Institute of Certified Public Accountants

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

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

We have audited the accompanying financial statements of the Village of Chesterhill, Morgan County, Ohio, (the Village) as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e., major) funds separately for 2005 and 2004. While the Village does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the third following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraph, the financial statements referred to above for the year ended December 31, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Government's combined funds as of December 31, 2005 and 2004, or their changes in financial position for the years then ended.

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

Also, in our opinion, except for the omission of receipt and disbursement classifications, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Village, as of December 31, 2005 and 2004, and its unclassified cash receipts and unclassified cash disbursements for the years then ended on the accounting basis Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Caudill & Associates, CPAs*

Caudill & Associates, CPA's  
January 5, 2007

VILLAGE OF CHESTERHILL  
MORGAN COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN FUND CASH BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Balance 1/1/2005</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 12/31/2005</u>
<b>General</b>	\$ 12,453	\$ 42,527	\$ 38,449	\$ 16,531
<b><u>Special Revenue:</u></b>				
Street Construction, Maintenance and Repair	901	11,208	14,068	(1,958)
State Highway Improvement	900	713	-	1,613
Fire	3,053	6,821	7,535	2,338
FEMA	-	2,478	2,478	-
Parks and Recreation	-	19,912	19,993	(80)
Total Special Revenue	<u>4,854</u>	<u>41,132</u>	<u>44,074</u>	<u>1,912</u>
<b><u>Capital Projects</u></b>				
Building Fund	-	10,800	17,123	(6,323)
Theatre Fund	1,394	1,200	5,812	(3,218)
Union Hall Renovation	5,327	240	240	5,327
Total Capital Projects	<u>6,721</u>	<u>12,240</u>	<u>23,175</u>	<u>(4,214)</u>
<b><u>Enterprise:</u></b>				
Water	17,286	136,841	142,431	11,696
Water Line Extension	(6,143)	239,406	228,053	5,210
Water Tower Improvement	11,714	-	1,180	10,534
Total Enterprise	<u>22,857</u>	<u>376,247</u>	<u>371,664</u>	<u>27,440</u>
<b>Total All Funds</b>	<b><u>\$ 46,884</u></b>	<b><u>\$ 472,146</u></b>	<b><u>\$ 477,362</u></b>	<b><u>\$ 41,669</u></b>

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

VILLAGE OF CHESTERHILL  
MORGAN COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN FUND CASH BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>Balance 1/1/2004</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balance 12/31/2004</b>
<b>General</b>	\$ 10,182	\$ 41,559	\$ 39,289	\$ 12,453
<b><u>Special Revenue:</u></b>				
Street Construction, Maintenance and Repair	3,376	11,469	13,943	901
State Highway Improvement	1,981	1,062	2,143	900
Fire	2,530	6,658	6,136	3,053
Total Special Revenue	7,887	19,189	22,222	4,854
<b><u>Capital Projects:</u></b>				
Theatre	1,384	10		1,394
Union Hall Renovation	5,327	-	-	5,327
Total Capital Projects	6,711	10	-	6,721
<b><u>Enterprise:</u></b>				
Water	14,348	124,226	121,288	17,286
Water Line Extension	-	21,558	27,701	(6,143)
Water Tower Improvement	16,795	1,800	6,881	11,714
Total Enterprise	31,143	147,584	155,870	22,857
<b>Total All Funds</b>	<b>\$ 55,923</b>	<b>\$ 208,342</b>	<b>\$ 217,381</b>	<b>\$ 46,884</b>

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Chesterhill, Morgan County (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides services that include maintenance of streets, water utility services, trash pickup, and fire protection through a contract with the Chesterhill Volunteer Fire Department.

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

**B. Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

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

**C. Cash and Investments**

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

**D. Fund Accounting**

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

**1. General Fund**

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. Trash pick-up is a small revenue source for the Village and has not been re-classified to an enterprise fund due to consistency of prior years and the small size of the revenue. Trash revenue didn't meet any of the three criteria required by GASB for sanitation revenue to be placed into an enterprise fund.

**2. Special Revenue Funds**

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004 (Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting**

**2. Special Revenue Funds (Continued)**

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

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

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

**3. Capital Project Funds**

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

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

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

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

**4. Enterprise Funds**

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

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

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

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004 (Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**2. Estimated Resources**

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

**3. Encumbrances**

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

A summary of 2005 and 2004 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**2. EQUITY IN POOLED CASH**

The Villages maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31 was as follows:

	2005	2004
Deposits:		
Demand Deposits	\$22,718	\$12,973
Investments:		
STAR Ohio	18,951	33,911
Total Deposits	\$41,669	\$46,884

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004 (Continued)**

**2. EQUITY IN POOLED CASH (Continued)**

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

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

**3. BUDGETARY ACTIVITY for the years ending December 31, 2005 and 2004 follows:**

Fund Type	2005 Budgeted vs. Actual Receipts		Variance
	Budgeted Receipts	Actual Receipts	
General	\$ 43,439	\$ 42,527	\$ (912)
Special Revenue	17,221	41,132	23,911
Capital Projects	15,000	12,241	(2,759)
Enterprise	539,953	376,247	(163,706)
<b>Total</b>	<b>\$ 615,613</b>	<b>\$ 472,147</b>	<b>\$ (143,466)</b>

Fund Type	2005 Budgeted vs. Actual Budgetary Basis Expenditures		Variance
	Appropriation Authority	Budgetary Expenditures	
General	\$ 67,917	\$ 38,449	\$ 29,468
Special Revenue	22,025	44,074	(22,049)
Capital Projects	-	23,176	(23,176)
Enterprise	528,183	371,664	156,519
<b>Total</b>	<b>\$ 618,125</b>	<b>\$ 477,363</b>	<b>\$ 140,762</b>

Fund Type	2004 Budgeted vs. Actual Receipts		Variance
	Budgeted Receipts	Actual Receipts	
General	\$ 65,617	\$ 41,559	\$ (24,058)
Special Revenue	19,425	19,189	(236)
Capital Projects	-	10	10
Enterprise	90,930	147,584	56,654
<b>Total</b>	<b>\$ 175,972</b>	<b>\$ 208,342</b>	<b>\$ 32,370</b>

Fund Type	2004 Budgeted vs. Actual Budgetary Basis Expenditures		Variance
	Appropriation Authority	Budgetary Expenditures	
General	\$ 65,617	\$ 39,289	\$ 26,328
Special Revenue	19,425	22,222	(2,797)
Capital Projects	-	-	-
Enterprise	90,930	155,870	(64,940)
<b>Total</b>	<b>\$ 175,972</b>	<b>\$ 217,381</b>	<b>\$ (41,409)</b>

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004 (Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

Contrary to Ohio law, expenditures exceeded appropriations in several funds in 2004 and 2005.

**4. COMPLIANCE**

The Village was in violation of 5705.10 for negative fund balances in several funds in 2004 and 2005.

The Village was in violation of 5705.36 due to estimated receipts exceeded actual receipts in several funds at December 31, 2005 and 2004 causing actual resources to fall below the level of appropriations.

The Villages was in violation of 5705.39 when appropriations exceeded estimated resources in 2005.

The Village was in violation of 5705.41D for not properly certifying funds in 2004 and 2005.

The Village was in violation of 26 C.F.R. Section 1.6041-2 for not including all taxable items in the Village Administrator's W-2 form.

**5. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20. Public utilities are also taxed on personal and real property located within the Village. Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

**6. DEBT** outstanding at December 31, 2005 was as follows:

	Principal	Interest
Kubota Tractor Loan	\$ 4,500	2.99%
Land Purchase Loan	11,726	8.50%
Ohio Water Development Authority Loan #1517	218,329	7.45%
Ohio Water Development Authority Loan #1518	22,927	6.51%
Ohio Water Development Authority Loan #3526	151,154	1.50%
Ohio Water Development Authority Loan #4248	202,392	1.50%
	\$ 611,028	

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

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**6. DEBT (Continued)**

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

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

Year Ending December 31:	Kubota Tractor Loan	Land Purchase Loan	OWDA Loan 1517	OWDA Loan 1518	OWDA Loan 3526	OWDA Loan 4248
2006	\$ 1,997	\$ 2,967	\$ 27,468	\$ 2,738	\$ 7,042	\$ 10,082
2007	1,997	2,967	27,468	2,738	7,042	10,082
2008	830	2,967	27,468	2,738	7,042	10,082
2009		2,967	27,468	2,738	7,042	10,082
2010		2,226	27,468	2,738	7,042	10,082
2011-2015			137,340	13,689	35,210	50,410
2016-2020			82,399	8,212	35,210	50,410
2021-2025					35,210	50,410
2026-2030					35,210	50,410
2031-2035					10,563	50,410
Total	<u>\$ 4,824</u>	<u>\$ 14,094</u>	<u>\$ 357,079</u>	<u>\$ 35,591</u>	<u>\$ 186,613</u>	<u>\$ 302,460</u>

**7. RETIREMENT SYSTEM**

The Village's elected officials and employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2005 and 2004, members of PERS contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all employer contributions required through December 31, 2005.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**8. RISK MANAGEMENT**

The Village belongs to the Public Entities Pool of Ohio, (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). The Village pays an annual contribution to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

PEP retains casualty risk up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate year. Governments can elect additional coverage from \$2,000,000 with General Reinsurance Corporation, through contracts with PEP. If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Beginning in 2005, Travelers Indemnity Company reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective Village. Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

PEP's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005:

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**8. RISK MANAGEMENT (Continued)**

<u><b>Casualty Coverage</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>
Assets	\$29,719,675	\$27,437,169
Liabilities	(15,994,168)	(13,880,038)
Retained Earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>
<u><b>Property Coverage</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>
Assets	\$4,443,332	\$3,648,272
Liabilities	(1,068,245)	(540,073)
Retained Earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment.

**9. CONTINGENT LIABILITIES**

The Village was not involved in any litigation claims as of December 31, 2005.

**10. RELATED PARTY TRANSACTION**

During 2005, it was noted that the Village paid Vickers's Construction \$2,085. Karen Vickers was the former Village clerk and her son was owner of Vickers's Construction during 2005.

# Caudill & Associates, CPA's

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Kentucky Society of Certified Public Accountants

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

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

We have audited the accompanying financial statements of the Village of Chesterhill, Morgan County, Ohio (the "Village") as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated January 5, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America, which was qualified since the Village did not classify receipts and disbursements for its 2005 and 2004 financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-007 through 2005-012.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2005-007 through 2005-011 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2005-001 through 2005-006.

We also noted certain additional matters that were reported to management of the Village in a separate letter dated January 5, 2007.

Village of Chesterhill  
Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
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This report is intended solely for the information and use of the management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

*Caudill & Associates, CPAs*

Caudill & Associates, CPA's  
January 5, 2007

VILLAGE OF CHESTERHILL  
MORGAN COUNTY

SCHEDULE OF FINDINGS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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

FINDING NUMBER 2005-001

Noncompliance Citation - Negative Fund Balances

Ohio Rev. Code Section 5705.10, provides that all money paid into a fund must be used only for purposes for which the fund was established. As a result, negative fund balances indicate that money from one fund was used to cover the expenses of another fund. The Village had significant negative fund balances in various funds, as follows:

<u>Date</u>	<u>Fund Type/Fund</u>	<u>Balance</u>
	<b><u>Enterprise</u></b>	
December 31, 2004	Water Line Extension	\$ (6,143)
	<b><u>Special Revenue</u></b>	
December 31, 2005	Street Construction, Maintenance and Repair	(1,958 )
December 31, 2005	Parks and Recreation	(80)
	<b><u>Capital Projects</u></b>	
December 31, 2005	Building	(6,323)
December 31, 2005	Theater	(3,218)

We recommend that the Village monitor their fund balances to ensure that funds are used solely for their intended purpose and to prevent negative fund balances.

**Village Response**

The Village will monitor resources and disbursements more closely.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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

**FINDING NUMBER 2005-002**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.36 (A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Rev. Code Section 5705.36 (A)(3) provides that an increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Rev. Code Section 5705.36 (A)(4) provides that a reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation

Estimated receipts exceeded actual receipts in several funds at December 31, 2005 and 2004 causing actual resources to fall below the level of appropriation as follows:

**2005**

Fund/Fund Type	Actual Resources	Appropriations	Variance
General	\$55,979	\$67,917	(\$11,938)
<u>Enterprise:</u>			
Water Line Extension	233,263	432,453	(199,190)

**2004**

Fund/Fund Type	Actual Resources	Appropriations	Variance
General	\$51,741	\$65,617	(\$13,876)

This could allow deficit spending to occur, as indicated in Finding Number 2005-001.

We recommend the Village Clerk obtain a reduced certificate of estimated resources when it is determined that estimated receipts will be less than the actual receipts causing resources to fall below the level of appropriations.

**Village Response:**

Village officials will monitor budgetary compliance more closely.

VILLAGE OF CHESTERHILL  
MORGAN COUNTY

SCHEDULE OF FINDINGS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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

FINDING NUMBER 2005-003

**Noncompliance Citation**

Ohio Rev. Code Section 5705.39 provides, in part, that the total appropriations from each fund shall not exceed the total estimated revenue. 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 or amended official estimate.

Appropriations exceeded estimated resources for the years ended December 31, 2005 and 2004 were as follows:

**2005**

<u>Fund/Fund Type</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
General	\$55,891	\$67,917	(\$12,026)

This could allow deficit spending to occur.

We recommend the Village Clerk ensure that appropriations do not exceed estimated resources prior to filing the appropriation measure with the County Auditor.

**Village Response:**

Village officials will monitor budgetary compliance more closely.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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

**FINDING NUMBER 2005-004**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been appropriated.

Expenditures exceeded appropriations at December 31, 2005 and 2004 in the following funds:

<b>2005</b>		Actual	
Fund/Fund Type	Appropriations	Expenditures	Variance
<b><u>Special Revenue:</u></b>			
Street Construction, Maintenance, and Repair	\$13,950	\$14,068	(118)
Fire	7,075	7,535	(460)
FEMA	0	2,478	(2,478)
Parks and Recreation	0	19,993	(19,993)
<b><u>Capital Projects:</u></b>			
Building	0	17,123	(17,123)
Theater	0	5,812	(5,812)
Union Hall Renovation	0	240	(240)
<b><u>Enterprise:</u></b>			
Water	95,730	142,431	(46,701)
Water Tower Improvement	0	1,180	(1,180)
<b>2004</b>		Actual	
Fund/Fund Type	Appropriations	Expenditures	Variance
<b><u>Special Revenue:</u></b>			
Street Construction, Maintenance, and Repair	\$11,350	\$13,943	(\$2,593)
State Highway Improvement	1,000	2,143	(1,143)
<b><u>Enterprise:</u></b>			
Water	86,430	121,288	(34,858)
Water Line Extension	0	27,701	(27,701)
Water Tower Improvement	4,500	6,881	(2,381)

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-004 (Continued)**

We recommend the Village Clerk not certify the availability of funds and deny payment requests exceeding appropriations. The Clerk may request Council to approve increased disbursement levels by increasing appropriations and amending estimated resources, if necessary.

**Village Response:**

Village officials will monitor budgetary compliance more closely.

**FINDING NUMBER 2005-005**

**Noncompliance Citation**

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

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

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

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

100% of the expenditures tested were not properly certified.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-005 (Continued)**

We recommend the Village implement policies to ensure that all purchases first have monies certified by the Clerk before purchasing or ordering an item. We also recommend the use of a “then and now” certificate in instances of emergency or absence of proper authority.

**Village Response:**

Village officials will monitor the proper certifying of expenditures more closely.

**FINDING NUMBER 2005-006**

**Noncompliance Citation**

26 C.F.R. Section 1.6041-2 states wages, as defined in 26 U.S.C. Section 3401, paid to an employee are required to be reported on Form W-2. Further, 26 C.F.R. Section 1.61-21 indicates that gross income includes compensation for services, including fees, commission, fringe benefits and similar items. This Section further defines which fringe benefits are considered taxable, and which are not. All taxable items should be included in the determination of gross income for reporting on an employee’s Form W-2.

During 2005, the Village paid the Village Administrator \$3,000 for services provided related to the financing and construction improvements of the Village water system. This payment was not included on the Village Administrator’s W-2 form.

We recommend the Village officials familiarize themselves with the current tax law to ensure all wages and taxable fringe benefits are reported on Form W-2. Additionally, the Village officials may require the advice of their legal counsel on this matter.

**Village Response:**

No response from Village officials.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-007**

**Reportable Condition/Material Weakness**

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

Voucher packages did not contain sufficient supporting documentation, such as original invoices, statements or vouchers for 12 percent of the nonpayroll transactions tested in 2004 and 2005.

Lack of supporting documentation could result in the Village making inappropriate disbursements for goods or services not actually received by the Village, and could allow errors and fraud to occur and go unnoticed for an extended period of time.

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

**Village Response**

No response from Village officials.

**FINDING NUMBER 2005-008**

**Reportable Condition/Material Weakness**

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

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

<p><b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b></p>
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**FINDING NUMBER 2005-008 (Continued)**

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

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

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

**Village Response**

No response from Village officials.

**FINDING NUMBER 2005-009**

**Reportable Condition/Material Weakness**

Monthly reconciliations were not performed accurately during the audit period. The Village's inability to get the books in balance with the bank resulted from several mispostings in the cashbook. Failure to perform inaccurate monthly reconciliations could lead to unauthorized or inaccurate transactions occurring and going undetected.

Additionally, financial information is provided periodically to Village Council by the Clerk-Treasurer; however, accurate monthly financial reports and reconciliations are not consistently provided by the Clerk and documented in the minutes. The lack of effective monitoring by Village Council also could lead to unauthorized or inaccurate transactions occurring and going undetected.

We recommend that monthly reconciliations be performed accurately and in a timely manner. Monthly reconciliations and monthly financial reports should be provided to Village Council by the Clerk at each regular meeting to facilitate effective monitoring of Village financial activity. Village Council's review of monthly reconciliations and financial reports should be documented in the minutes.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-009 (Continued)**

**Village Response**

No response from Village officials.

**FINDING NUMBER 2005-010**

**Reportable Condition/Material Weakness**

The Clerk handles all financial record-keeping, including receipting and posting. The weakness of this system is that it may allow for diversion of funds through possible alteration of source documents. Also, bookkeeping errors may occur without detection in a timely manner.

To enhance accountability and to strengthen internal accounting controls, officials should periodically review the records, (i.e. reconciliations, etc.) to determine accuracy and to verify that proper procedures were followed by the clerk. We recommend these periodic reviews be noted in the minutes, and the documents reviewed be initialed by the reviewer.

**Village Response**

No response from Village officials.

**FINDING NUMBER 2005-011**

**Reportable Condition/Material Weakness**

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

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

**Village Response**

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

<p><b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b></p>
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**FINDING NUMBER 2005-012**

**Reportable Condition**

During the audit period, an employee of the Village held the positions of Village Administrator, Water Operator I, Assistant Water Clerk, and Consultant simultaneously. The employee was paid for each position held.

It is possible that a potential compatibility issue exists with the same employee holding these positions.

We recommend the Village seek a written opinion from their legal counsel regarding this issue.

**Village Response**

Our legal council has been notified.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2003-001	ORC Section 149.351, lack of documentation	No	Reissued, see finding 2005-007
2003-002	Ohio Admin. Code Section 117-2-02(A), inadequate accounting system	No	Reissued, see finding 2005-008
2003-003	ORC Section 5705.36, estimated resources exceeding actual revenue plus Jan 1 cash and appropriations were greater than actual revenue plus Jan 1 cash.	No	Reissued, see finding 2005-002
2003-004	ORC Section 5705.39, appropriations exceeding estimated resources	No	Reissued, see finding 2005-003
2003-005	ORC Section 5705.41(B), expenditures exceeding appropriations	No	Reissued, see finding 2005-004
2003-006	ORC Section 5705.41(D), Failure to certify funds	No	Reissued, see finding 2005-005
2003-007	26 U.S.C. Section 3401, not including all compensation on W-2	No	Reissued, see finding 2005-006
2003-008	Reportable Condition – A Village employee holding several different positions	No	Reissued, see finding 2005-012



**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF CHESTERHILL**

**MORGAN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 10, 2007**