
ALGER & ASSOCIATES, Inc.

CERTIFIED PUBLIC ACCOUNTANTS



CHESTER TOWNSHIP

GEAUGA COUNTY, OHIO

A & A

REGULAR AUDIT

FOR THE YEARS ENDED

DECEMBER 31, 2012 & 2011



Dave Yost • Auditor of State

Board of Trustees
Chester Township
12701 Chillicothe Road
Chesterland, Ohio 44026

We have reviewed the *Independent Auditors' Report* of Chester Township, Geauga County, prepared by Alger & Associates, LLC, 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.

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. Chester Township is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

November 15, 2013

**CHESTER TOWNSHIP
GEOUGA COUNTY**

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ALGER & ASSOCIATES, Inc

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Chester Township
Geauga County
12701 Chillicothe Road
Chesterland, Ohio 44026

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Chester Township, Geauga County, (the Township), 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 Township'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 Township'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.

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North Canton, OH 44720
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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.B. of the financial statements, the Township 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.B. 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 Government as of December 31, 2012 and 2011, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Chester Township, Geauga 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.B.


Emphasis of Matter

As discussed in Note 1 to the financial statements, during 2011 the Township 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 September 2, 2013, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes 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 Standards* in considering the Township's internal control over financial reporting and compliance.

Alger &
Associates, Inc.



Digitally signed by Alger &
Associates, Inc.
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ou=Alger & Associates, Inc., ou,
email=galg@neo.r.com, c=US
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Alger & Associates, Inc.
September 2, 2013

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**CHESTER TOWNSHIP
GEAUGA COUNTY**

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

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$315,281	\$3,423,087	\$0	\$3,738,368
Charges for Services	0	271,330	0	271,330
Licenses, Permits and Fees	12,787	5,550	0	18,337
Fines and Forfeitures	20,135	0	0	20,135
Intergovernmental	1,443,213	697,642	0	2,140,855
Special Assessments	0	62,617	0	62,617
Earnings on Investments	33,292	304	0	33,596
Miscellaneous	16,777	103,979	0	120,756
Total Cash Receipts	1,841,485	4,564,509	0	6,405,994
Cash Disbursements:				
Current:				
General Government	482,213	0	0	482,213
Public Safety	0	2,619,904	0	2,619,904
Public Works	325,346	1,547,956	0	1,873,302
Health	0	20,869	0	20,869
Conservation-Recreation	50,271	0	0	50,271
Capital Outlay	536,318	452,735	270,697	1,259,750
Debt Service:				
Principal Retirement	0	56,986	0	56,986
Interest and Fiscal Charges	0	8,690	0	8,690
Total Cash Disbursements	1,394,148	4,707,140	270,697	6,371,985
Total Receipts Over/(Under) Disbursements	447,337	(142,631)	(270,697)	34,009
Other Financing Receipts/(Disbursements):				
Sale of Notes	0	0	279,000	279,000
Transfers In	0	41,000	0	41,000
Transfers Out	(41,000)	0	0	(41,000)
Advances In	0	0	4,300	4,300
Advances Out	(4,300)	0	0	(4,300)
Other Financing Sources	0	37,032	0	37,032
Total Other Financing Receipts/(Disbursements)	(45,300)	78,032	283,300	316,032
Net Change in Fund Cash Balances	402,037	(64,599)	12,603	350,041
Fund Cash Balance, January 1- (see note 3)	2,732,925	2,988,512	0	5,721,437
Fund Cash Balance, December 31				
Nonspendable	0	0	0	0
Restricted	0	2,769,221	12,603	2,781,824
Committed	0	11,000	0	11,000
Assigned	78,374	143,692	0	222,066
Unassigned	3,056,588	0	0	3,056,588
Fund Cash Balance, December 31	\$3,134,962	\$2,923,913	\$12,603	\$6,071,478

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

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**CHESTER TOWNSHIP
GEAUGA COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$297,495	\$3,349,864	\$0	\$3,647,359
Charges for Services	0	300,419	0	300,419
Licenses, Permits and Fees	16,542	3,345	0	19,887
Fines and Forfeitures	26,286	0	0	26,286
Intergovernmental	724,168	672,000	171,403	1,567,571
Special Assessments	0	45,435	0	45,435
Earnings on Investments	17,601	299	0	17,900
Miscellaneous	20,311	48,260	41,392	109,963
Total Cash Receipts	1,102,403	4,419,622	212,795	5,734,820
Cash Disbursements:				
Current:				
General Government	547,279	0	0	547,279
Public Safety	0	2,562,739	0	2,562,739
Public Works	365,114	1,346,312	0	1,711,426
Health	0	16,773	0	16,773
Conservation-Recreation	19,180	0	0	19,180
Capital Outlay	404,298	656,033	171,403	1,231,734
Debt Service:				
Principal Retirement	0	42,012	279,000	321,012
Interest and Fiscal Charges	0	6,245	10,620	16,865
Total Cash Disbursements	1,335,871	4,630,114	461,023	6,427,008
Total Receipts Over/(Under) Disbursements	(233,468)	(210,492)	(248,228)	(692,188)
Other Financing Receipts/(Disbursements):				
Sale of Bonds	0	0	240,656	240,656
Transfers In	0	67,088	0	67,088
Transfers Out	(67,088)	0	0	(67,088)
Advances In	0	20,000	0	20,000
Advances Out	(20,000)	0	0	(20,000)
Other Financing Sources	0	3,476	0	3,476
Total Other Financing Receipts/(Disbursements)	-87,088	90,564	240,656	244,132
Net Change in Fund Cash Balances	(320,556)	(119,928)	(7,572)	(448,056)
Fund Cash Balance, January 1- (see note 3)	3,135,072	2,923,913	12,603	6,071,588
Fund Cash Balance, December 31				
Restricted	0	2,744,938	5,031	2,749,969
Committed	0	0	0	0
Assigned	414,704	59,046	0	473,750
Unassigned (Deficit)	2,399,813	0	0	2,399,813
Fund Cash Balance, December 31	2,814,517	2,803,984	5,031	5,623,532

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

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**CHESTER TOWNSHIP
GEAUGA 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 Chester Township, Geauga County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township also has a publicly elected Township Fiscal Officer. The Township provides road and bridge maintenance, cemetery maintenance, police, fire protection and emergency medical services

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

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

B. Accounting Basis

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

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

C. Deposits and Investments

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

The Township invests in STAR Ohio (State Treasurer's Investment Pool) are recorded at share values reported by the State Treasurer.

D. Fund Accounting

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

**CHESTER TOWNSHIP
GEAUGA COUNTY**

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

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 Township had the following significant Special Revenue Funds:

Road & Bridge Fund – This fund receives tax levy money for the purpose of providing and maintaining roads, ditches, and bridges, related apparatus, appliances, buildings, or the payment of highway laborers.

Police District Fund – This fund receives tax levy money for the purpose of providing and maintaining police apparatus, equipment, or payment of permanent, part-time police officers.

Fire District Fund – This fund receives tax levy money for the purpose of providing and maintaining fire apparatus, appliances, buildings, sources of water supply and materials, or the payment of permanent, part-time, or volunteer firemen or to provide ambulance or emergency medical services.

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 Township had the following significant capital project funds.

Permanent Improvement Fund - The Township assessed residents for road work done on Sperry Road.

Issue II Fund - The Township received a grant from the State of Ohio for road work done on Sherman Road.

CHESTER TOWNSHIP
GEAUGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(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 object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not encumber all commitments required by Ohio law.

A summary of 2012 and 2011 budgetary activity appears in Note 4.

F. Fund Balance

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

1. Nonspendable

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

CHESTER TOWNSHIP
GEAUGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

2. Restricted

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

3. Committed

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

4. Assigned

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

5. Unassigned

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

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

G. Property, Plant, and Equipment

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

CHESTER TOWNSHIP
GEAUGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

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.

2 Change in Reporting

As discussed further in the Basis of Accounting section of Note 1 the financial statements are presented on the accounting basis the Auditor of State prescribes or permits. The Township changed their financial statement presentation from the modified cash basis of accounting to the accounting basis the Auditor of State prescribes or permits. The prior audited financial statements were presented on *modified* cash basis of accounting. This *modified* cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

3. Equity in Pooled Deposits and Investments

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

	2012	2011
Demand deposits	\$272,222	\$444,490
Sweep Account	5,314,132	5,589,838
STAR Ohio	37,178	37,150
Total deposits and investments	<u>\$5,623,532</u>	<u>\$6,071,478</u>

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

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

4. Restatement of Prior Year Fund Balance

The prior year's audited fund balances was adjusted to reflect the voided checks as reconciled to the bank and investment balances.

**CHESTER TOWNSHIP
GEAUGA COUNTY**

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

<u>Special Revenue Fund</u>	<u>For 2011</u>
Fund Cash Balance, December 31 as previously reported	\$2,988,496
Voided Checks	16
Fund Cash Balance, January 1	<u>\$2,988,512</u>
<u>General Revenue Fund</u>	<u>For 2012</u>
Fund Cash Balance, December 31 as previously reported	\$3,134,962
Voided Checks	110
Fund Cash Balance, January 1	<u>\$3,135,072</u>

5. Budgetary Activity

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

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$541,476	\$1,102,403	\$560,927
Special Revenue	4,468,209	4,490,186	21,977
Capital Projects	175,000	453,451	278,451
Total	<u>\$5,184,685</u>	<u>\$6,046,040</u>	<u>\$861,355</u>

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,954,424	\$1,817,663	\$136,761
Special Revenue	5,660,644	4,689,159	971,485
Capital Projects	187,603	461,023	(273,420)
Total	<u>\$7,802,671</u>	<u>\$6,967,845</u>	<u>\$834,826</u>

**CHESTER TOWNSHIP
GEAUGA COUNTY**

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

5. Budgetary Activity (continued)

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,688,152	\$1,841,485	\$153,333
Special Revenue	4,708,240	4,642,541	(65,699)
Capital Projects	283,300	279,000	(4,300)
Total	\$6,679,692	\$6,763,026	\$83,334

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,215,821	\$1,513,522	\$702,299
Special Revenue	5,711,148	4,850,832	860,316
Capital Projects	283,300	270,697	12,603
Total	\$8,210,269	\$6,635,051	\$1,575,218

Contrary to Ohio law, the Township did not properly encumber all commitments required by Ohio Revised Code Section 5705.41(D) in 2012 and 2011.

Contrary to Ohio law, the Township expended money in excess of appropriations.

6. Property Tax

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

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

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

**CHESTER TOWNSHIP
GEAUGA COUNTY**

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

7. Debt

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
Ohio Public Works Old Mill	\$59,492	0.00%
General Obligation Bonds for Cedar Rd	\$60,000	0.00%
General Obligation Bonds for Sherman	\$44,953	5.19%
General Obligation Bonds for Sperry	\$240,656	3.89%
Total	\$405,101	

The \$59,492 loan outstanding is an interest-free loan from the Ohio Public Works Commission (OPWC) for the embankment stabilization projects on Old Mill Road in cooperation with the Village of Gates Mills and requires equal payments over twenty year.

Special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the Township.

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

Year ending	OPWC Loan	Cedar Road	Sherman	Sperry Road	
December 31:	Old Mill Rd	SA Bonds	Road SA Bonds	SA Bonds	Total
2013	\$3,499	\$32,370	\$16,372	\$29,766	\$82,007
2014	3,499	31,200	16,372	29,768	80,839
2015	3,499		16,372	29,766	49,637
2016	3,499			29,766	33,265
2017	3,499			29,766	33,265
2018-2022	17,499			148,831	166,330
2023-2027	17,499				17,499
2028-2030	6,999				6,999
Total	\$59,492	\$63,570	\$49,116	\$297,663	\$469,841

8. Retirement Systems

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is 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 Township contributed an amount equaling 14%, of participants' gross salaries. The Township has paid all contributions required through December 31, 2012.

**CHESTER TOWNSHIP
GEAUGA COUNTY**

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

9. Risk Management

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

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

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2012, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011 (the latest information available):

	<u>2012</u>	<u>2011</u>
Assets	\$34,771,270	\$35,086,165
Liabilities	<u>(9,355,082)</u>	<u>(9,718,792)</u>
Net Position	<u>\$25,416,188</u>	<u>\$25,367,373</u>

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$8.7 and \$9.1 million of estimated incurred claims payable. The assets above also include approximately \$7.96 and \$8.6 million of unpaid claims to be billed to approximately 944 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Township's share of these unpaid claims collectible in future years is approximately \$54,000.

**CHESTER TOWNSHIP
GEAUGA COUNTY**

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

9. Risk Management (continued)

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

<u>Contributions to OTARMA</u>	
<u>2012</u>	<u>2011</u>
\$80,759	\$76,529

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.



ALGER & ASSOCIATES, Inc.

Certified Public Accountants

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

Chester Township
Geauga County
12701 Chillicothe Road
Chesterland, Ohio 44026

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Chester Township, Geauga County, Ohio, (the Township) 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 September 2, 2013, wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1. We also noted the Township has adopted Governmental Accounting Standards Board Statement No. 54.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Township'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 not to the extent necessary to opine on the effectiveness of the Township'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 a 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 Township's financial statements. We consider findings 2012-001, 2012-002 and 2012-006 described in the accompanying schedule of findings to be material weaknesses.

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 2012-003 through 2012-005 described in the accompanying schedule of findings to be a significant deficiencies.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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 is described in the accompanying schedule of findings as items 2012-001 through 2012-005.

Entity's Response to Findings

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

Purpose of this Report

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

Alger &
Associates, Inc.

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Associates, Inc.
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Alger & Associates, Inc.
September 2, 2013

**CHESTER TOWNSHIP
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-001

Noncompliance/Material Weakness

Ohio Rev. Code Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances.

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

1. Then and Now Certificate: If the Fiscal Officer can certify that both at the time that the contract or order was made "then" at the time that he is completing his certification "now", 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 such 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

2. Blanket Certificate – Fiscal Officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

FINDING NUMBER 2012-001 – (continued)

Noncompliance/Material Weakness – (continued)

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

Of the 70 expenditures tested we found 7 instances where the Township did not certify that funds were available at the time of the commitment for any of the disbursements made by the Township. Incurring obligations prior to the Fiscal Officer's certification could result in the Township spending more than appropriated. The Township did not satisfy any of the exceptions stated above.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval and aid in the posting of the expenditures to the correct department. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the Trustees insure that departmental supervisors are not purchasing goods or services prior to the Fiscal Officer certifying that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend that the Township certify all purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language as set forth in 5705.41(D) (1) to authorize disbursements.

Implementation of the recommendation may help the Township come into compliance with the Ohio Revised Code.

FINDING NUMBER 2012-002

Noncompliance/Material Weakness

Posting Errors

Ohio Admin. Code 117-2-02(A) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by Ohio Admin. Code Section 117-2-03.

FINDING NUMBER 2012-002 – (continued)

Noncompliance/Material Weakness – (continued)

Posting Errors – (continued)

We noted the following discrepancies:

- On-Behalf Revenue - In 2012 the current Fiscal Officer did not record the \$171,403 receipt of or incurrence of an obligation regarding repairs on a Township road completed by the Ohio Department of Transportation on behalf of the Township
- Debt Proceeds - The current Fiscal Officer did not record the debt proceeds in the Uniform Accounting System (UAN) system and the financial statements along with the corresponding payment of anticipatory notes in the amount of \$240,656.
- Debt Interest – In 2012 the current Fiscal Officer posted an interest debt payment of \$1,906 in the Road and Bridge Fund – line item capital outlay instead of interest and fiscal charges
- NOPEC Revenue - A 2012 NOPEC receipt for \$21,087 was posted as interest and had to be reclassified to the miscellaneous revenue account in the Miscellaneous Revenue Fund – fund 2901.
- Sperry Road Project - The Township had provided the residents an option to make a full payment or opt for a special assessment on their property for this project. The revenue received from the residents that paid in full in the amount of \$41,392 was posted by the current Fiscal Officer to the Special Revenue Fund in 2012 but should have been posted to the Capital Project Fund – the fund that initiated the debt. The debt was paid out of the General Fund in 2012 for \$40,465 rather than the Capital Project Fund.
- Medicaid Account – The current Fiscal Officer posted the receipts from the Medicaid Account at net rather than gross. An adjustment was required to book the fees paid in the amount of \$16,737.
- An adjustment to the Fire District Fund in the amount of \$1,780 was required to reconcile the Township books with the bank as of December 31, 2012
- An adjustment to the Capital Project Fund in the amount of \$938 was required to reconcile the difference between the amount collected from the residents for the Sperry Road Project and the amount of the payoff for the bond anticipatory note.

The financial statements have been adjusted to reflect the errors noted above.

As a result of some of these errors the Township made following fund balance adjustments:

- Increase the General Fund by \$40,464.84
- Reduce the Special Assessment Fund by \$41,392
- Reduce the Fire District Fund by \$1,780
- Increase the Capital Project Fund by \$938

Sound financial reporting is the responsibility of the Fiscal Officer and the Board of Trustees and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

FINDING NUMBER 2012-002 – (continued)

Noncompliance/Material Weakness – (continued)

Posting Errors – (continued)

To ensure the Township's financial statements and notes to the statements are complete and accurate, we recommend the Fiscal Officer refer to the Ohio Township Handbook for proper classification and take additional care in posting transactions to the Township's ledgers in order to ensure the Township's year-end financial statements reflect the appropriate sources of the Township's receipts and expenditures. Using these classifications will provide the Township with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

FINDING NUMBER 2012-003

Noncompliance/Significant Deficiency

Expenditures Limited by Appropriations

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. In 2012, the Capital Project Funds Expenditures plus Encumbrances of \$461,023 exceeded Appropriations plus Encumbrances of \$187,654 by \$273,420.

This situation increases the possibility that deficit spending may occur.

We recommend that Management monitor their budgetary accounts throughout the year to ensure that expenditures do not exceed appropriations and prior year carryover encumbrances. Fund appropriations should be amended to correspond with any increase or decrease in fund expenditures. The Fiscal Officer should deny requests for payment when appropriations are not available.

FINDING NUMBER 2012-004

Noncompliance/Significant Deficiency

Budgetary

Ohio Revised Code Section 5705.36(A)(3) requires a subdivision to obtain an increased amended certificate from the budget commission if the legislative authority intends to appropriate and expend excess revenue. The Township did not amend their certificate of estimated resources for calendar year 2012 when the Township had a sale of bonds.

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. As of December 31, 2012, the Township issued bonds for road improvement of Sperry Road. The Capital Project Fund had expenditures in excess of appropriations when the Township repaid the anticipatory notes through the sale of bonds.

We recommend that Management monitor their budgetary accounts throughout the year to ensure that expenditures do not exceed appropriations and prior year carryover encumbrances. Fund appropriations should be amended to correspond with any increase or decrease in fund expenditures. We also recommend that the Township comply with Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget throughout the year.

FINDING NUMBER 2012-005

Noncompliance/Significant Deficiency

Fund Transfers

Ohio Rev. Code Section 5705.14 states, in part, that except in the case of transfers from the general fund, transfers can be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members. Transfers from the general fund require a resolution passed by a simple majority of the board members (i.e., a two thirds vote is not required for general fund transfers though a resolution is required).

The Township Trustees authorized the current Fiscal Officer to transfer \$67, 087.86 on November 1, 2012 from the General Fund to the Special Revenue Fund however, the current Fiscal Officer recorded the transfer as an advance.

This condition may allow for appropriations and expenditures to be made for purposes which Trustees had not intended. We recommend the Trustees implement policies and procedures to prohibit any transfer of money between funds without proper approval of Trustees.

FINDING NUMBER 2012-006

Material Weakness

Cash Reconciliation

In order to ensure the completeness and accuracy of the District's accounting records, an adequate system of internal controls requires that monthly reconciliations be performed between the fund ledgers and bank depository. To be effective, these reconciliations should include a thorough investigation and follow-up of all significant reconciling items.

The following deficiencies and reconciling items were noted in the Township's monthly cash reconciliations:

- The Township's cash fund balances did not agree to the bank balances during the period of April 2012 through December 31, 2012;
- The Township utilizes the Uniform Accounting System (UAN) for processing their transactions. The UAN system has built in controls which prevent the Township from entering transactions for the succeeding month if the Township does not reconcile the preceding month. The current Fiscal Officer included adjustments on the reconciliation with no documentation to support the adjustments, which varied from \$80 to over \$5000, during 2012, in order to override the system and allow the succeeding months transactions to be entered.
- The expenditure ledger was not always reduced to account for voided payroll checks and old outstanding checks;
- The outstanding check list as of December 31, 2012 had three checks listed as outstanding , however, one check was voided for \$450, the second check for \$28.66 was paid twice and the third check was cashed and not outstanding.
- Transactions cleared the bank in amounts that differed from the fund ledgers;

Ultimately, various adjustments were required to reconcile the amounts on deposit with the Township's books. The financial statements reflect these adjustments as of December 31, 2012.

As a result of these conditions, errors, irregularities, or misappropriation of assets may occur and not be detected within a timely period.

We recommend the Fiscal Officer perform an accurate cash reconciliation between the Township's fund ledgers and bank depository monthly. Any deficiencies or reconciling items should immediately be investigated and rectified. The Township Trustees should closely monitor the reconciliation process by reviewing the follow-up of any deficiencies or reconciling items.

Officials' Response:

On Behalf of the Chester Township Board of Trustees and the Fiscal Officer we agree with the findings of the audit for both years 2011 and 2012 and that the financials for both years reflected in this report actually reflect the Townships finances and that there were no improprieties or fraudulent use of funds.

Below, please find our responses to each of the audit findings cited in your report.

Finding 2012-001

Weakness was found in the Townships process for both years 2011 and 2012 in that in some cases purchase orders were issued in circumstances where a Then and Now purchase order should have been used.

Moving forward we will draft and implement an improved process to issue a regular purchase order prior to service or materials being ordered or if circumstances warrant, issue a Then and Now Purchase Order certificate.

Findings 2012- 002 through 2012-005

This group of findings relate to specific posting errors or omissions made during 2011 and 2012. The on-behalf and debt error postings were non cash transactions that should have been posted to the accounting system even though no cash hit the Townships accounts directly. Because they were not posted as revenue and equally not posted as expense they caused the situations identified in items 2012-002 through 2012-005. There were also some posting errors that necessitated reclassification which are reflected in the financial statements. The posting errors in some cases relate to the transition of Fiscal Officers in April of 2012 who has undertaken and will continue to pursue further training to improve compliance.

2012-006

The Bank Reconciliation was performed by three separate individuals in 2012. Due to the office transition and the complexity of the Chester Township reconciliation, a traveling fiscal officer was contracted by the Township to assist in the training of the new fiscal officer and to reconcile the statements.

Other adjusting factors were used each month to account for checks that were processed in the EMS system, HRA adjustments that happened at month end which may not have hit the bank statements as well as the small unreconciled amount which needed to be identified. The Fiscal Officer along with the traveling fiscal officer rolled the system in order for the Township to be able to pay the bills and run the payroll system. For the purposes of this audit, the backup documentation did not detail in sufficient format the other adjusting factors listed on the bank reconciliation.

To ensure complete reconciliation and compliance Chester Township contracted with the State Auditors Local Government Services department (LGS) to analyze and identify the unreconciled amount. LGS successfully completed this and the financial statements are correctly reflected in this report.

The Chester Township Board of Trustees and Fiscal Officer appreciate the input and feedback of both the State Auditor's office and Alger and Associates Inc., in helping us ensure compliance and improve our processes and procedures.



Dave Yost • Auditor of State

CHESTER TOWNSHIP

GEAUGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 3, 2013**