



Dave Yost • Auditor of State



**CHESTER TOWNSHIP  
CLINTON COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Cover Letter .....	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2010.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2009.....	6
Notes to the Financial Statements .....	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	15
Schedule of Findings .....	17
Schedule of Prior Audit Findings .....	23

**This page intentionally left blank.**



# Dave Yost • Auditor of State

Chester Township  
Clinton County  
5606 State Route 380  
Wilmington, Ohio 45177

To the Board of Trustees:

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

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

**Dave Yost**  
Auditor of State

October 5, 2011

**This page intentionally left blank.**



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Chester Township  
Clinton County  
5606 State Route 380  
Wilmington, Ohio 45177

To the Board of Trustees:

We have audited the accompanying financial statements of Chester Township, Clinton County, Ohio (the Township), as of and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2010 and 2009, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Chester Township, Clinton County, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2011, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Dave Yost**  
Auditor of State

October 5, 2011



**CHESTER TOWNSHIP  
CLINTON COUNTY**

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

	<u>Governmental Fund Types</u>				<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	
<b>Cash Receipts:</b>					
Property and Other Local Taxes	\$61,565	\$151,324	\$0	\$0	\$212,889
Charges for Services		40,435			40,435
Licenses, Permits, and Fees		3,615			3,615
Intergovernmental	65,699	119,036			184,735
Earnings on Investments	180	63			243
Miscellaneous	81,024	11,321			92,345
					<hr/>
Total Cash Receipts	208,468	325,794	0	0	534,262
					<hr/>
<b>Cash Disbursements:</b>					
Current:					
General Government	193,904	173,549			367,453
Public Safety		14,988			14,988
Public Works	129	105,413			105,542
Health	2,523	10,981			13,504
Capital Outlay		484			484
Debt Service:					
Redemption of Principal		30,766			30,766
Interest and Other Fiscal Charges		6,170			6,170
					<hr/>
Total Cash Disbursements	196,556	342,351	0	0	538,907
					<hr/>
Total Receipts Over/(Under) Disbursements	11,912	(16,557)	0	0	(4,645)
					<hr/>
<b>Other Financing Receipts / (Disbursements):</b>					
Other Financing Sources	1,144				1,144
					<hr/>
Total Other Financing Receipts / (Disbursements)	1,144	0	0	0	1,144
					<hr/>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	13,056	(16,557)	0	0	(3,501)
					<hr/>
Fund Cash Balances, January 1	(4,415)	196,260	567	306	192,718
					<hr/>
<b>Fund Cash Balances, December 31</b>	<b>\$8,641</b>	<b>\$179,703</b>	<b>\$567</b>	<b>\$306</b>	<b>\$189,217</b>

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

**CHESTER TOWNSHIP  
CLINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	
<b>Cash Receipts:</b>					
Property and Other Local Taxes	\$60,100	\$154,469	\$0	\$0	\$214,569
Charges for Services		43,006			43,006
Licenses, Permits, and Fees		6,350			6,350
Intergovernmental	20,749	116,528	5,567		142,844
Earnings on Investments	177	64			241
Miscellaneous	3,684	43,549			47,233
<b>Total Cash Receipts</b>	<u>84,710</u>	<u>363,966</u>	<u>5,567</u>	<u>0</u>	<u>454,243</u>
<b>Cash Disbursements:</b>					
Current:					
General Government	115,750	154,136			269,886
Public Safety		504			504
Public Works		102,369			102,369
Health	1,508	24,139			25,647
Capital Outlay		14,209	9,127		23,336
Debt Service:					
Redemption of Principal		29,290			29,290
Interest and Other Fiscal Charges		7,121			7,121
<b>Total Cash Disbursements</b>	<u>117,258</u>	<u>331,768</u>	<u>9,127</u>	<u>0</u>	<u>458,153</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>(32,548)</u>	<u>32,198</u>	<u>(3,560)</u>	<u>0</u>	<u>(3,910)</u>
<b>Fund Cash Balances, January 1</b>	<u>28,133</u>	<u>164,062</u>	<u>4,127</u>	<u>306</u>	<u>196,628</u>
<b>Fund Cash Balances, December 31</b>	<u><b>(\$4,415)</b></u>	<u><b>\$196,260</b></u>	<u><b>\$567</b></u>	<u><b>\$306</b></u>	<u><b>\$192,718</b></u>

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

**CHESTER TOWNSHIP  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Chester Township, Clinton County, Ohio (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services.

The Township participates in the Ohio Township Association Risk Management Association (OTARMA), a public entity risk pool, which supplies insurance and bonding coverage for the Township. Note 7 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**

The Township maintains a NOW checking account.

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

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

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

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

**CHESTER TOWNSHIP  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

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

Fire Levy Fund – This fund receives proceeds from the property tax levy for fire protection.

**3. Capital Project Fund**

This fund accounts for receipts restricted to acquiring or constructing major capital projects. The Township had the following capital project fund:

FEMA Fund - The Township received a Federal Emergency Management Agency (FEMA) grant during 2009.

**4. Permanent Fund**

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

McMillan Trust Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of Chester Cemetery.

**E. Budgetary Process**

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

**1. Appropriations**

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

**2. Estimated Resources**

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

**3. Encumbrances**

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

A summary of 2010 and 2009 budgetary activity appears in Note 3.

**CHESTER TOWNSHIP  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

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

**F. Property, Plant, and Equipment**

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

**2. Equity in Pooled Deposits**

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

	2010	2009
Demand deposits	\$189,217	\$192,718

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

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$175,581	\$209,612	\$34,031
Special Revenue	272,050	325,794	53,744
Capital Projects	0	0	0
Permanent	0	0	0
Total	\$447,631	\$535,406	\$87,775

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$221,667	\$196,556	\$25,111
Special Revenue	418,810	342,351	76,459
Capital Projects	567	0	567
Permanent	4	0	4
Total	\$641,048	\$538,907	\$102,141

**CHESTER TOWNSHIP  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**3. Budgetary Activity (Continued)**

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$73,000	\$84,710	\$11,710
Special Revenue	288,500	363,966	75,466
Capital Projects	5,000	5,567	567
Permanent	0	0	0
Total	\$366,500	\$454,243	\$87,743

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$119,133	\$117,258	\$1,875
Special Revenue	434,562	331,768	102,794
Capital Projects	9,127	9,127	0
Permanent	4	0	4
Total	\$562,826	\$458,153	\$104,673

The Township did not properly certify in accordance with Ohio Rev. Code Section 5705.41D.

**4. Property Tax**

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

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

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

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

**5. Debt**

Debt outstanding at December 31, 2010 was as follows:

	Principal	Interest Rate
Dura Patcher Note	\$24,522	6.53%
Ambulance Capital Lease	64,407	4.37%
Total	\$88,929	

**CHESTER TOWNSHIP  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**5. Debt (Continued)**

In 2007, the Township issued a general obligation note to finance the purchase of a new truck for Township road maintenance. This note was paid directly to Leader Machinery Company and is secured by the durapatcher truck.

In 2008, the Township's entered into a lease with Old National Bank for an ambulance, provided by Burgess Hearse and Ambulance Service.

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

Year ending December 31:	General Obligation Note	Ambulance Capital Lease
2011	\$13,475	\$23,461
2012	13,475	23,461
2013	0	23,461
Total	\$26,950	\$70,383

**6. Retirement Systems**

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

The Ohio Revised Code also prescribes contribution rates. For 2010 and 2009, 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, 2010.

**7. Risk Management**

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

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

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

**CHESTER TOWNSHIP  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**7. Risk Management (Continued)**

Casualty and Property Coverage

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

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

Financial Position

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

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

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$9.9 and \$12.0 million of estimated incurred claims payable. The assets above also include approximately \$9.5 and \$11.5 million of unpaid claims to be billed to approximately 940 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Township's share of these unpaid claims collectible in future years is approximately \$7,850.

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

<u>Contributions to OTARMA</u>	
<u>2010</u>	<u>2009</u>
\$10,608	\$11,635



**CHESTER TOWNSHIP  
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**7. Risk Management (Continued)**

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.

**8. Compliance**

The Township did not maintain records in accordance with Ohio Administrative Code.

The Township did not maintain documentation over the Trustees' salaries in accordance with Ohio Revised Code.

**This page intentionally left blank.**



# Dave Yost • Auditor of State

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

Chester Township  
Clinton County  
5606 State Route 380  
Wilmington, Ohio 45177

To the Board of Trustees:

We have audited the financial statements of the Chester Township, Clinton County, Ohio (the Township), as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated October 5, 2011, wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider a material weaknesses and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-01 through 2010-03 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2010-04 described in the accompanying schedule of findings to be a significant deficiency.

#### **Material Noncompliance**

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-001 through 2010-003.

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated October 5, 2011.

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



**Dave Yost**  
Auditor of State

October 5, 2011

**CHESTER TOWNSHIP  
CLINTON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

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

**FINDING NUMBER 2010-01**

**Noncompliance Citation/Material Weakness**

**Ohio Admin. Code, Section 117-2-02**, requires governments to maintain an accounting system and accounting records sufficient to identify, assemble, analyze, classify and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Township uses the Uniform Accounting Network (UAN) accounting system to prepare financial statements. Revenue and expenditures must be properly coded in the UAN system to be properly classified on the financial statements. The Township did not accurately code receipts and disbursements resulting in classification errors on the financial statements. Failure to have properly classified financial statements can mislead the users on the activity of the Township. The Township had errors coding debt payments, tax receipts, intergovernmental receipts, charges for services and miscellaneous receipts that resulted in the following reclassifications and adjustments to the financial statements:

Year	Fund	Amount	Classification Reported	Proper Classification	Description
2009	General Fund	\$7,983	Taxes	Intergovernmental	Homestead and Rollback receipts were posted to the tax line item instead of intergovernmental receipts.
		\$18,000	Fund Balance	Miscellaneous	A receipt was posted to taxes instead of miscellaneous receipts.  An adjustment was incorrectly made by the the fiscal officer. This adjustment overstated the General Fund's fund balance
	Gas Tax Fund	\$12,950	Capital Outlay	Principal and Interest Payments	Debt payments were incorrectly posted to the Capital Outlay line item instead of being reported in the Redemption of Principal and Interest line item.
		\$18,000	Fund Balance		An adjustment was incorrectly made by the fiscal officer. This adjustment understated the Gas Tax Fund's fund balance.
	Road and Bridge Fund	\$3,373	Taxes	Intergovernmental	Homestead and Rollback receipts were posted to the Tax line item instead of Intergovernmental.

**FINDING NUMBER 2010-01  
(Continued)**

Year	Fund	Amount	Classification Reported	Proper Classification	Description
2009	<b>Fire Levy Fund</b>	\$16,565	Taxes	Intergovernmental	Homestead and Rollback receipts were posted to taxes instead Intergovernmental.
		\$43,006	Miscellaneous	Charges for Services	Ambulance Run receipts were posted to Miscellaneous receipts instead of Charges for Services.
		\$23,461	General Government	Principal and Interest Payments	Debt payments were posted to General Government line item instead of Principal and Interest.

Year	Fund	Amount	Classification Reported	Proper Classification	Description
2010	<b>General Fund</b>	\$8,166	Taxes	Intergovernmental	Homestead and Rollback receipts were posted to the Tax line item instead of Intergovernmental line item.
				Miscellaneous	A receipt was posted to Taxes instead of Miscellaneous receipts.
	<b>Permissive Motor Vehicle License Fund</b>	\$14,235	Taxes	Intergovernmental	Homestead and Rollback receipts were posted to the Tax line item instead of Intergovernmental line item.
		\$3,475	Public Works	Principal and Interest	Debt payments were posted to the Public Works line item instead of Principal and Interest line item.
	<b>Road and Bridge Fund</b>	\$3,457	Taxes	Intergovernmental	Homestead and Rollback receipts were posted to the Tax line item instead of Intergovernmental.
		\$10,000	Public Works	Principal Payment	A debt payment was posted to Public Works expenditure instead of Principal line item expenditure.

**FINDING NUMBER 2010-01  
 (Continued)**

Year	Fund	Amount	Classification Reported	Proper Classification	Description
2010	Fire Levy Fund	\$17,065	Taxes	Intergovernmental	Homestead and Rollback receipts were posted to Taxes instead Intergovernmental.
		\$14,166	Miscellaneous	Charges for Services	Ambulance Run receipts were posted to Miscellaneous receipts instead of Charges for Services line item.
		\$23,461	Capital Outlay	Principal and Interest Payments	Debt payments were posted to General Government line item instead of Principal and Interest line item

The adjustments and/or reclassifications noted above were posted to the Township's financial statements and, where applicable, the Township's accounting records.

We recommend that the Township include and code all transactions using the UAN chart of accounts to ensure that the expenditures are classified correctly on the financial statements. The Township should also establish effective review procedures for transactions posted to the accounting records and the financial statements. This will allow the Township to present accurate financial statements.

**FINDING NUMBER 2010-02**

**Noncompliance Citation / Material Weakness**

**Ohio Revised Code, § 505.24(C)**, sets forth the method by which a township trustee's compensation should be allocated. This section is amplified by Ohio Attorney General Opinion 2004-036. This section requires that compensation of a township trustee must be paid from the Township General Fund or from such other restricted township funds, in such proportions based on the amount of time spent on matters related to the services rendered. In addition, OAG Opinion 2004-036 indicates trustees should establish administrative procedures to document the proportionate amount of trustees' salaries chargeable to other township funds based on the portion of time spent on matters related to the services rendered. The "administrative procedures" can be timesheets or a similar method of record keeping, as long as the trustee's document all time spent on township business and the type of service(s) performed, in a manner similar to trustee's paid per diem compensation. If trustees do not document their time spent, then no part of salaries may be paid from these other funds. The requirements of Ohio Rev. Code Section 505.24(C) were noted in the Chester Township management letter for the audit conducted for years ending December 31, 2008 and 2007. In 2009, two Trustees were paid entirely out of the Gasoline Tax fund during the first nine months of the year and they did not maintain records of services performed that meet the above requirements.

We recommend the Township adopt formal administrative procedures regarding documenting the time spent by Board of Trustees on various duties. Once these administrative procedures are established trustee salaries and related benefits should be charged to the applicable funds in accordance with the timesheets or other similar method of record keeping. The Township has made adjustments totaling \$13,500 to their financial statements and their accounting system to move these expenditures to the General Fund by increasing the general government expenditures and decreasing fund balance, and out of the Gas Tax Fund (Special Revenue Fund) by increasing the fund balance and decreasing its public works expenditures.

### FINDING NUMBER 2010-03

#### Noncompliance Citation / Material Weakness

**Ohio Revised Code, § 5705.41 (D)**, prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" Certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.
2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The availability of funds was not certified in twenty seven percent (27%) during 2009 and fifty four percent (54%) during 2010 of the Township's expenditures tested, and none of the exceptions above applied. We also noted nothing in the minutes stating a limit to the Township's blanket certificates.



**FINDING NUMBER 2010-03  
(Continued)**

Every effort should be made by the Township to properly utilize the encumbrance method of according by certifying funds on purchase orders. Failure to properly certify funds could result in overspending of the Township's funds, resulting in negative cash fund balances. Unless the Township uses the exceptions noted above, prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used. We recommend the Township officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred, and that the Township establish a maximum amount for blanket certificates by resolution. The most convenient certification method is to use purchase orders that include the certification language required to authorize disbursements. The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the compliance requirements are satisfied. The Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

**FINDING NUMBER 2010-04**

**Significant Deficiency**

When designing the public office's system of internal control and the specific control activities, management should consider the following:

- Ensuring that all transactions are properly authorized in accordance with management's policies.
- Ensuring that accounting records are properly designed.
- Ensuring adequate security of assets and records.
- Verifying the existence and valuation of assets and liabilities and periodically reconciling them to the accounting records.
- Performing analytical procedures to determine the reasonableness of financial data.
- Monitoring activities performed by service organizations.

The Township entered into a contract with MBI to process bills for ambulance runs. Payments were sent directly to a PO BOX. MBI received copies of remittance detail that was sent to the lockbox. MBI would then post this detail to their records. The Township did not establish procedures to reasonably determine that ambulance billings have been completely and accurately processed and collected. There was no evidence that the Township reconciles the amounts posted by MBI to the monies that were deposited into the Township's bank account. This could lead to monies not being properly deposited in the Township's account.

We recommend the Township establish procedures to reconcile the ambulance runs to the amounts invoiced by MBI. They should continue the process by reconciling the amount deposited to their account to the amount invoiced by MBI. By reconciling the billing and receipt cycle, the MBI can reduce the risk of duplicate invoices or missing invoices and nonpayment of invoices.

**FINDING NUMBER 2010-05**

**Noncompliance Citation**

**Ohio Rev. Code 5705.10**, requires that monies paid into any fund is used only for purposes for which such fund is established. During 2009, the Township inaccurately posted an adjustment of \$18,000 which overstated the General Fund and understated the Gas Tax Fund. In addition, two of the Trustees were paid from the Gas Tax Fund without proper documentation. As a result, audit adjustments were required in the amount of \$13,500 to correct the mispostings. These misposting are described in findings 2010-001 and 2010-002. The adjustments to correct the above mispostings caused a negative cash fund balance of \$4,415 in the General Fund at December 31, 2009.

A negative cash fund balance is an indication that revenues from other sources were used to pay obligations of these funds. Fund activity should be monitored by the Township to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

**We did not receive a response from officials to the findings reported above.**

**CHESTER TOWNSHIP  
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2008-001	<b>Ohio Revised Code, § 505.601(A)</b> , the Trustees did not adopt a resolution over their health insurance.	Yes	
2008-002	<b>Ohio Revised Code, § 505.24(C)</b> , the Trustees salaries were not allocated to the proper funds.	No	Reissued as Finding 2010-002
2008-003	The Township lacks monitoring controls over the receipts and disbursement cycle.	No	Reissued as Finding 2010-001
2008-004	<b>Ohio Revised Code Section 5705.41(D)(1)</b> , proper certification of funds not completed prior to obligation.	No	Reissued as Finding 2010-003

**This Page is Intentionally Left Blank.**



# Dave Yost • Auditor of State

CHESTER TOWNSHIP

CLINTON 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  
OCTOBER 20, 2011