



Dave Yost • Auditor of State



VILLAGE OF CHESTERHILL  
MORGAN COUNTY

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# Dave Yost • Auditor of State

Village of Chesterhill  
Morgan County  
P.O. Box 191  
Chesterhill, Ohio 43728

To the Village Council:

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 Village 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.

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**Dave Yost**  
Auditor of State

November 29, 2012

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Chesterhill  
Morgan County  
P.O. Box 191  
Chesterhill, Ohio 43728

To the Village Council:

We have audited the accompanying financial statements of the Village of Chesterhill, Morgan County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2011 and 2010, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances as of December 31, 2011 and 2010, of the Village of Chesterhill, Morgan County, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1F, during 2011 the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2012, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

**Dave Yost**  
Auditor of State

November 29, 2012



**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

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

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$2,185	\$5,006		\$7,191
Intergovernmental	10,588	12,375		22,963
Charges for Services	3,600			3,600
Fines, Licenses and Permits	120			120
Earnings on Investments	2,748			2,748
Miscellaneous	961	5,207	\$2,183	8,351
<i>Total Cash Receipts</i>	<u>20,202</u>	<u>22,588</u>	<u>2,183</u>	<u>44,973</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property		4,830		4,830
Leisure Time Activities		6,068		6,068
Transportation		11,288		11,288
General Government	24,908			24,908
Capital Outlay			3,734	3,734
Debt Service:				
Principal Retirement	573			573
Interest and Fiscal Charges	77			77
<i>Total Cash Disbursements</i>	<u>25,558</u>	<u>22,186</u>	<u>3,734</u>	<u>51,478</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	(5,356)	402	(1,551)	(6,505)
<i>Fund Cash Balances, January 1</i>	<u>12,444</u>	<u>2,560</u>	<u>(7,490)</u>	<u>7,514</u>
<b>Fund Cash Balances, December 31</b>				
Restricted	0	2,962	0	2,962
Unassigned (Deficit)	7,088	0	(9,041)	(1,953)
<i>Fund Cash Balances, December 31</i>	<u>\$7,088</u>	<u>\$2,962</u>	<u>(\$9,041)</u>	<u>\$1,009</u>

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

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

	Proprietary Fund Types
	Enterprise
<b>Operating Cash Receipts</b>	
Charges for Services	\$199,769
<i>Total Operating Cash Receipts</i>	199,769
<b>Operating Cash Disbursements</b>	
Personal Services	37,817
Employee Fringe Benefits	12,205
Contractual Services	37,153
Supplies and Materials	17,664
Utilities	13,018
<i>Total Operating Cash Disbursements</i>	117,857
<i>Operating Income (Loss)</i>	81,912
<b>Non-Operating Receipts (Disbursements)</b>	
Intergovernmental	725
Capital Outlay	(3,966)
Principal Retirement	(34,967)
Interest and Other Fiscal Charges	(17,664)
<i>Total Non-Operating Receipts (Disbursements)</i>	(55,872)
<i>Net Change in Fund Cash Balances</i>	26,040
<i>Fund Cash Balances, January 1</i>	80,893
<i>Fund Cash Balances, December 31</i>	\$106,933

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

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

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$3,480	\$5,875		\$9,355
Intergovernmental	8,677	12,558		21,235
Charges for Services	3,600			3,600
Fines, Licenses and Permits	120			120
Earnings on Investments	2,243			2,243
Miscellaneous	3,193	3,560	\$5,121	11,874
<i>Total Cash Receipts</i>	<u>21,313</u>	<u>21,993</u>	<u>5,121</u>	<u>48,427</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property		5,655		5,655
Leisure Time Activities		4,872		4,872
Transportation		10,789		10,789
General Government	31,268			31,268
Capital Outlay			3,555	3,555
Debt Service:				
Principal Retirement	374			374
Interest and Fiscal Charges	41			41
<i>Total Cash Disbursements</i>	<u>31,683</u>	<u>21,316</u>	<u>3,555</u>	<u>56,554</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	(10,370)	677	1,566	(8,127)
<i>Fund Cash Balances, January 1</i>	<u>22,814</u>	<u>1,883</u>	<u>(9,056)</u>	<u>15,641</u>
<b>Fund Cash Balances, December 31</b>				
Restricted	0	2,560	0	2,560
Unassigned (Deficit)	12,444	0	(7,490)	4,954
<i>Fund Cash Balances, December 31</i>	<u>\$12,444</u>	<u>\$2,560</u>	<u>(\$7,490)</u>	<u>\$7,514</u>

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

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

	Proprietary Fund Types
	Enterprise
<b>Operating Cash Receipts</b>	
Charges for Services	\$213,925
<i>Total Operating Cash Receipts</i>	213,925
<b>Operating Cash Disbursements</b>	
Personal Services	38,784
Employee Fringe Benefits	9,649
Contractual Services	49,402
Supplies and Materials	688
Utilities	21,221
Other	5,022
<i>Total Operating Cash Disbursements</i>	124,766
<i>Operating Income (Loss)</i>	89,159
<b>Non-Operating Receipts (Disbursements)</b>	
Intergovernmental	790
Capital Outlay	(4,326)
Principal Retirement	(33,534)
Interest and Other Fiscal Charges	(19,467)
<i>Total Non-Operating Receipts (Disbursements)</i>	(56,537)
<i>Net Change in Fund Cash Balances</i>	32,622
<i>Fund Cash Balances, January 1</i>	48,271
<i>Fund Cash Balances, December 31</i>	\$80,893

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

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

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

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

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

**B. Accounting Basis**

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

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

**C. Deposits**

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

**D. Fund Accounting**

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

**1. General Fund**

The General Fund 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 Village had the following significant Special Revenue Funds:

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

State Highway Fund - This fund receives gasoline tax and motor vehicle license tax money for constructing, maintaining, and repairing Village streets.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

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

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

**D. Fund Accounting (Continued)**

**2. Special Revenue Funds**

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

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

**3. Capital Projects Funds**

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

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

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

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

**4. Enterprise Funds**

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

Water Fund – This fund receives charges for services from residents to cover the cost of providing water service to the Village.

Garbage Fund – This fund receives charges for services from residents to cover the cost of contracting for garbage collection service for the Village.

Broadband Fund – This fund receives charges for services from residents to cover the cost of contracting for the provision of broadband service for the Village.

**E. Budgetary Process**

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

**1. Appropriations**

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

VILLAGE OF CHESTERHILL  
MORGAN COUNTY

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

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. The Village did not use the encumbrance method of accounting.

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

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

3. Committed

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

4. Assigned

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

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

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

**F. Fund Balance (Continued)**

**5. Unassigned**

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

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

**G. Property, Plant, and Equipment**

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

**H. Accumulated Leave**

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

**2. Equity in Pooled Deposits**

The Village 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:

	2011	2010
Demand deposits	\$107,942	\$88,407

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

**3. Budgetary Activity**

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

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$16,182	\$20,202	\$4,020
Special Revenue	22,441	22,588	147
Capital Projects	14,135	2,183	(11,952)
Enterprise	143,576	200,494	56,918
Total	\$196,334	\$245,467	\$49,133



**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

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

**3. Budgetary Activity (Continued)**

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$28,069	\$25,558	\$2,511
Special Revenue	12,965	22,185	(9,220)
Capital Projects	0	3,734	(3,734)
Enterprise	163,137	174,454	(11,317)
Total	<u>\$204,171</u>	<u>\$225,931</u>	<u>(\$21,760)</u>

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$12,135	\$21,313	\$9,178
Special Revenue	22,741	21,993	(748)
Capital Projects	37,824	5,121	(32,703)
Enterprise	168,701	214,715	46,014
Total	<u>\$241,401</u>	<u>\$263,142</u>	<u>\$21,741</u>

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$46,484	\$31,683	\$14,801
Special Revenue	20,715	21,316	(601)
Capital Projects	0	3,555	(3,555)
Enterprise	161,072	182,093	(21,021)
Total	<u>\$228,271</u>	<u>\$238,647</u>	<u>(\$10,376)</u>

Contrary to Ohio law, at December 31, 2010, the Parks and Recreation Fund (Special Revenue Fund), Building Fund (Capital Projects Fund) and the Theater Fund (Capital Projects Fund) had cash deficit balances of \$1,442, \$8,962 and \$1,609, respectively. At December 31, 2011, the Parks and Recreation Fund, Building Fund and the Theater Fund had cash deficit balances of \$2,303, \$8,962 and \$3,160, respectively. Also contrary to Ohio law, at December 31, 2010, expenditures exceeded appropriations in the Parks and Recreation Fund by \$2,372, in the Theater Fund by \$3,555, in the Broadband Fund by \$660 and in the Water Fund by \$19,571. At December 31, 2011, expenditures exceeded appropriations in the Street Construction, Maintenance and Repair Fund by \$4,255, in the Parks and Recreation Fund by \$6,068, in the Theater Fund by \$3,734 and in the Water Fund by \$12,992. Also contrary to Ohio law, the General Fund appropriations exceeded the total estimated resources for the year ended December 31, 2010.

**4. Property Tax**

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

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

**4. Property Tax (Continued)**

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

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

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

**5. Debt**

Debt outstanding at December 31, 2011, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Truck Loan	\$12,937	5.00%
Roof and Window Loan	\$8,207	4.00%
Ohio Water Development Loan #1517	\$137,426	7.45%
Ohio Water Development Loan #1518	\$14,130	6.51%
Ohio Water Development Loan #3526	\$121,292	1.50%
Ohio Water Development Loan #4248	\$168,533	1.50%
Total	<u>\$462,525</u>	

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

The roof and window replacement loan was obtained to provide financing for the repair and replacement of the Village Hall roof and windows. This loan is backed by the full faith and credit of the Village.

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

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

Year ending	Truck	Roof and	OWDA	OWDA	OWDA	OWDA
December 31:	Loan	Window	Loan	Loan	Loan	Loan
		Loan	#1517	#1518	#3526	#4248
2012	\$4,326	\$3,251	\$27,468	\$2,738	\$7,042	\$8,536
2013	4,327	3,251	27,468	2,738	7,042	8,536
2014	4,326	2,168	27,468	2,738	7,042	8,536
2015	1,082		27,468	2,738	7,042	8,536
2016			27,468	2,738	7,042	8,536
2017-2021			54,935	5,475	35,211	42,682
2022-2026					35,211	42,682
2027-2031					35,211	42,682
2032-2035					3,521	34,145
Total	<u>\$14,061</u>	<u>\$8,670</u>	<u>\$192,275</u>	<u>\$19,165</u>	<u>\$144,364</u>	<u>\$204,871</u>

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

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

**6. Retirement Systems**

The Village'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 includes postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

**7. Risk Management**

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

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

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

Casualty and Property Coverage

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

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2011 and 2010.

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

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

**7. Risk Management (Continued)**

At December 31, 2011 and 2010, respectively, the liabilities above include approximately \$13 million and \$12.9 million of estimated incurred claims payable. The assets above also include approximately \$12.1 million and \$12.4 million of unpaid claims to be billed to approximately 455 member governments in the future, as of December 31, 2011 and 2010, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2011, the Village's share of these unpaid claims collectible in future years is approximately \$8,000.

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

<b><u>Contributions to PEP</u></b>	
<b><u>2011</u></b>	<b><u>2010</u></b>
\$8,474	\$8,346

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

**8. Related Party Transactions**

The Village retains Crabbe, Brown and James, LLC, as legal counsel. The Mayor's son, Richard D. Wetzel, Jr., is a partner with the firm. The Village paid monthly retainer fees to Crabbe, Brown and James, LLC totaling \$2,200 in 2011 and \$2,400 in 2010.

The Village paid GT&J Lawn care \$2,530 in 2011 and \$2,235 in 2010 for snow removal, mowing, and other services. Tonya Tabler, a council member for the Village, is the spouse of the owner of GT&J Lawn care.

**9. Contingent Liabilities**

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.



# Dave Yost • Auditor of State

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

Village of Chesterhill  
Morgan County  
P.O. Box 191  
Chesterhill, Ohio 43728

To the Village Council:

We have audited the financial statements of the Village of Chesterhill, Morgan County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated November 29, 2012, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. Also, for December 31, 2011, we noted the Village has adopted Governmental Accounting Standards Board Statement No.54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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

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 2011-01, 2011-07 and 2011-08 described in the accompanying Schedule of Findings to be material weaknesses.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2011-01 through 2011-06.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated November 29, 2012.

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

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



**Dave Yost**  
Auditor of State

November 29, 2012

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2011-01**

**Noncompliance Citation and Material Weakness**

Ohio Rev. Code Section 733.28 requires the Village Fiscal Officer to maintain the books of the Village and exhibit accurate statements of all monies received and expended.

Ohio Admin. Code Section 117-2-02(A) requires public offices to 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, document compliance with finance-related legal and contractual requirements and prepare financial statements. Per Ohio Admin. Code Section 117-2-02(D), accounting records that can help achieve these objectives include:

1. Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of payer, purpose, receipt number, and other information required for such transactions to be recorded on this ledger.
3. Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

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

The Village prepared and maintained a cash journal by fund for 2010, but it did not include all of the funds of the Village. Additionally, there was no indication of the receipt or appropriation account documented for any transaction. The Village did not maintain an appropriation ledger or receipt ledger during 2010.

The Village did not prepare or maintain a cash journal for 2011. The Village did prepare and maintain an appropriation ledger by fund and a receipt ledger by fund during 2011, but it did not include all of the funds of the Village. Additionally, there was no indication of the receipt or appropriation account documented for any transaction and the budgeted receipts and appropriations were not posted to the ledgers.

During 2011 and 2010, the financial reports submitted to the Auditor of State by the Village did not agree to the 2010 cash journal and the 2011 receipts and disbursements ledgers. Failure to reconcile resulted in material misstatement of the annual report as discussed in Finding 2011-07.

We recommend the Fiscal Officer properly prepare the cash journal, appropriation ledger and receipt ledger to monitor compliance and accurately prepare the annual reports.

**Official's Response:** The Village Fiscal Officer has requested the general guidance and training from Local Government Services Section of the Auditor of State's Office.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2011-02**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.10(H) states that money paid into a fund must be used only for the purpose for which such fund has been established.

The Village had negative fund balances as follows:

	At December 31, 2010	At December 31, 2011
Parks and Recreation	\$ (1,442)	\$ (2,303)
Building Fund	(8,962)	(8,962)
Broadband Fund	(1,609)	(3,160)

Negative fund balances indicate money from one fund was used to cover the expenses of another fund. Overspending was due to a lack of budgetary oversight by the Village officials.

The Building Fund was established in 2005 for the construction of the Village Building. All project activity occurred in 2006 resulting in a negative balance of \$8,962 since December 31, 2006. Since this fund is no longer needed, we proposed that the Village remove this fund from the books by transferring \$8,962 from the General Fund to this fund to eliminate the deficit balance since the Revised Code prohibits the Village from carrying deficit fund balances. The General Fund is the only fund that can transfer funds to the Building Fund and then this fund can be taken off the books.

The Theater Fund was established in 2003 to renovate and maintain the Theater portion of the Union Hall (not occupied by the Library) using monies from donations and fundraisers. Again, since the Ohio Revised Code prohibits local governments from carrying deficit fund balances, the Village will have to advance or transfer money from the General Fund to the Theater Fund to cover that fund's deficit balance of \$3,181 at December 31, 2011. An advance, or temporary interfund loan, should only be used if it is probable that the Theater Fund will be able to repay the General Fund in the near future. If it is not reasonable to expect repayment, the Village can transfer from the General Fund. The General Fund is the only Village fund that can advance or transfer to this fund.

We recommend the Village take the necessary steps to eliminate negative fund balances through advances or transfers from the General Fund as indicated and only post disbursements into a fund for the purposes for which such fund has been established. We also recommend the Village establish a plan to curtail unnecessary spending in order to eliminate negative fund balances.

**Official's Response:** The Village was not aware of any negative balances. We will try to establish a plan to curtail unnecessary spending and only post disbursements into a fund for the purposes for which such fund has been established.



**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2011-03**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.14 outlines various allowable transfers, including money that may be transferred from the general fund to any other fund of the subdivision by resolution of the taxing authority.

During 2011, a transfer was posted to the Village's financial records in the amount of \$920 from the Enterprise - Water Fund to Special Revenue - Building Fund. The proceeds from both of these funds are restricted, making this transfer unallowable. The audited financial statements reflect the reversal of this transfer.

We recommend Council approve all interfund transfers and advances and that the Village obtain guidance from their legal counsel as to whether the interfund transaction is allowable.

**Official's Response:** The Village Council will seek guidance from legal counsel in the future as to whether the interfund transaction is allowable.

**FINDING NUMBER 2011-04**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Appropriations exceeded estimated resources at December 31, 2010 by \$11,925 in the General Fund. Appropriating funds in excess of estimated receipts plus the available fund balance may result in deficit spending.

We recommend the Village monitor its estimated revenue and appropriations to ensure appropriations are within estimated resources.

**Official's Response:** The Village Fiscal Officer has requested the general guidance and training from Local Government Services Section of the Auditor of State's Office.

**FINDING NUMBER 2011-05**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(B) prohibits subdivisions or taxing authorities from expending money unless it has been appropriated as provided in such chapter.

At December 31, 2011, expenditures exceeded appropriations, as follows:

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

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

**FINDING NUMBER 2011-05 (Continued)**

**Noncompliance Citation - Ohio Rev. Code Section 5705.41(B) (Continued)**

At December 31, 2011, expenditures exceeded appropriations, as follows:

	Appropriations	Budgetary Expenditures	Variance
Street Construction, Maintenance and Repair	\$ 7,032	\$ 11,287	\$ (4,255)
Parks and Recreation	-	6,068	\$ (6,068)
Theater Fund	-	3,734	\$ (3,734)
Water Operating	133,201	146,193	\$ (12,992)

At December 31, 2010, expenditures exceeded appropriations, as follows:

	Appropriations	Budgetary Expenditures	Variance
Parks and Recreation	\$ 2,500	\$ 4,872	\$ (2,372)
Theater Fund	-	3,555	\$ (3,555)
Water Operating	134,550	154,121	\$ (19,571)
Broadband Fund	3,000	3,660	\$ (660)

We recommend the Fiscal Officer compare expenditures to appropriations at the legal level of control, which can be lower than the fund level, on a monthly basis. If appropriations in addition to those already adopted will be needed, the Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The Fiscal Officer should deny requests for payment when appropriations are not available.

**Official's Response:** The Village Fiscal Officer has requested the general guidance and training from Local Government Services Section of the Auditor of State's Office.

**FINDING NUMBER 2011-06**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(D)(1) 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.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2011-06 (Continued)**

**Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)**

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 Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from 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 Village.

2. Blanket Certificates - Fiscal officers may prepare so-called "blanket" certificates not running beyond 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. Purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.
3. Super Blanket Certificate - The Village may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Village did not encumber any obligations in 2011 and 2010. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend the Fiscal Officer prepare purchase orders and certify that the funds are or will be available prior to an obligation being incurred by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village obtain the Fiscal Officer's certification of the availability of funds prior incurring any purchase commitments. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code to reduce the available appropriation.

**Official's Response:** The Village will look into possibly implementing one of the above certificates for purchases.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

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

**FINDING NUMBER 2011-07**

**Material Weakness – Financial Statement Adjustments**

All local public offices should 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, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Fiscal Officer posted certain revenue and expenditures transactions incorrectly. The following items were noted:

2010:

- The Village improperly accounted for the Garbage Collection activity in the General Fund when this should be reported and monitored as an Enterprise Fund. As a result, receipts of \$24,540 and expenditures of \$23,522 were moved from the General Fund into the Garbage Fund (Enterprise Fund). This reclassification reduced the December 31, 2010 General Fund Balance by \$1,018.
- The Village did not post certain receipts and expenditures such as interest receipts and bank charges to the books for the General Fund. This resulted in an increase to Interest Receipts of \$2,243, an increase in Miscellaneous Receipts of \$60, an increase in General Government expenditures of \$1,789 and an increase in the December 31, 2010 General Fund cash balance of \$514.
- The Village did not include the petty cash balance of \$390 in the monthly or year end reconciliations resulting in a \$390 understatement of the December 31, 2010 General Fund cash balance.
- The Village posted General Fund Taxes at net rather than gross and misposted Intergovernmental Receipts as Miscellaneous Receipts. As a result, Taxes were understated by \$1,300, Intergovernmental Receipts were understated by \$266, Miscellaneous Receipts were overstated by \$262 and General Government expenditures were understated by \$1,304.
- The Village posted debt principal payments of \$374 and interest payments of \$41 as General Government expenditures.
- The Village posted late fees of \$10,058 relating the Water services, \$468 relating to Broadband services and \$1,457 relating to Garbage Collection services to the General Fund rather than as Charges for Services in those funds. As a result, Miscellaneous Receipts and the ending fund balance in the General Fund were overstated by \$11,983 and Charges for Services and the ending fund balances in the Water, Broadband and Garbage Funds were understated by \$10,058, \$468 and \$1,457, respectively.
- The Village improperly accounted for the Broadband Service activity as a Special Revenue Fund when this should be reported and monitored as an Enterprise Fund. As a result, the beginning balance of \$1,604, receipts of \$7,884 and expenditures of \$3,660 were moved from the Special Revenue Funds into the Broadband Fund (Enterprise Fund).
- In the Special Revenue Funds, the Village posted Intergovernmental Receipts, such as Permissive Tax, as Taxes and Posted Taxes at net, rather than gross. As a result, \$1,942 was reclassified from Taxes to Intergovernmental Receipts. Additionally, Taxes were increased by \$535 and Security of Persons and Property expenditures were increased by the same.
- Fire Fund expenditures of \$5,120 were improperly posted as Basic Utility Services rather than as Security of Persons and Property.
- Receipts of \$3,606 and expenditures of \$2,455 relating to the Theater Fund were improperly posted to the Union Hall Fund.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2011-07 (Continued)**

**Material Weakness – Financial Statement Adjustments (Continued)**

- Posting errors as well as calculation errors in the ledgers resulted in unposted Charges for Services in Water Fund of \$447. While the amount was not material, it prevented the Village from reconciling to the bank at year end.
- Water Operating Fund Debt was improperly posted resulting in an increase to Interest and Fiscal Charges of \$19,467, an increase to Intergovernmental Receipts of \$790, a decrease to Redemption of Principal of \$14,129, a decrease to Supplies and Materials of \$4,326 and a decrease to Other Expenses of \$222.

2011:

- The Village improperly accounted for the Garbage Collection activity in the General Fund when this should be reported and monitored as an Enterprise Fund. As a result, receipts of \$27,003 and expenditures of \$26,277 were moved from the General Fund into the Garbage Fund (Enterprise Fund). This reclassification reduced the December 31, 2011 General Fund Balance by \$726.
- The Village did not post certain receipts and expenditures such as interest receipts and bank charges to the books for the General Fund. This resulted in an increase to Interest Receipts of \$2,748, an increase in Miscellaneous Receipts of \$838, a decrease in Fines and Forfeitures of \$10, an increase in General Government expenditures of \$251 and an increase in the December 31, 2011 General Fund cash balance of \$3,325.
- The Village posted General Fund Taxes at net rather than gross and misposted Intergovernmental Receipts. As a result, Taxes were understated by \$1,042, Intergovernmental Receipts were understated by \$488, General Government expenditures were understated by \$1,360 and the December 31, 2011 fund cash balance was understated by \$170.
- The Village posted \$1,667 in Homestead and Rollback receipts as Taxes to the General Fund when it should have been classified as Intergovernmental Receipts. Additionally, \$271 of this amount should have been posted to the Street Fund rather than the General Fund. As a result, the receipts were reclassified, the December 31, 2011 General Fund Balance was reduced by \$271 and the Street Fund was increase by the same.
- The Village posted debt principal payments of \$573 and interest payments of \$77 as General Government expenditures.
- The Village posted late fees of \$7,721 relating the Water services, \$382 relating to Broadband services and \$1,337 relating to Garbage Collection services to the General Fund rather than as Charges for Services in those funds. As a result, Miscellaneous Receipts and the ending fund balance in the General Fund were overstated by \$9,440 and Charges for Services and the ending fund balances in the Water, Broadband and Garbage Funds were understated by \$7,721, \$382 and \$1,337, respectively.
- The Village improperly posted Property and Other Local Tax of \$109 and Charges for Services receipts of \$272 as Miscellaneous Receipts in the General Fund.
- The Village improperly accounted for the Broadband Service activity as a Special Revenue Fund when this should be reported and monitored as an Enterprise Fund. As a result, receipts of \$7,707 and expenditures of \$3,327 were moved from the Special Revenue Funds into the Broadband Fund (Enterprise Fund).
- In the Street Construction, Maintenance and Repair Special Revenue Fund, Intergovernmental Receipts were understated by \$17 and Transportation Expenditures were understated by \$1,016. As a result, the December 31, 2011 Street Construction, Maintenance and Repair fund cash balance decreased by \$1,033.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2011-07 (Continued)**

**Material Weakness – Financial Statement Adjustments (Continued)**

- Mispostings in the State Highway Fund resulted in increases in Intergovernmental Receipts and ending fund cash balance of \$119.
- Mispostings in the Parks and Recreation Fund resulted in a decrease in Leisure Time Activity expenditures and an increase in ending fund cash balance of \$140.
- The Village transferred \$920 from the Water Fund to the Building Fund but did not book the Transfer In to the Building Fund causing a reconciling issue. However, the unallowable transfer from the Water Fund to the Building Fund was ultimately reversed.
- Unposted transactions resulted in an increase to Theater Fund expenditures and a decrease in the December 31, 2011 fund cash balance of \$65.
- Fire Fund expenditures of \$5,120 were improperly posted as Basic Utility Services rather than as Security of Persons and Property.
- Posting errors as well as calculation errors in the ledgers resulted in unposted Expenditures in the Water Fund of \$1,996. While the amount was not material, it prevented the Village from reconciling to the bank at year end.
- Water Operating Fund Debt was improperly posted resulting in an increase to Interest and Fiscal Charges of \$17,664, an increase to Intergovernmental Receipts of \$725, a decrease to Redemption of Principal of \$12,944, a decrease to Supplies and Materials of \$3,966 and a decrease to Other Expenses of \$29.
- Posting errors as well as calculation errors in the ledgers resulted in unposted Charges for Services Receipts of \$286 and Contract Services expenditures of \$1,343 in the Broadband Fund. While the amount was not material, it prevented the Village from reconciling to the bank at year end.

These misstatements were caused by a lack of management oversight. As a result, significant adjustments and reclassifications, with which the Village's management agrees, were made to the financial statements and ledgers, and are reflected in the accompanying financial statements.

We recommend the Fiscal Officer refer to Appendix A of the Village Officer's Handbook for proper classification and take additional care in posting transactions to the Village's ledgers in order to ensure the financial statements reflect the appropriate sources of the receipts and expenditures.

**Official's Response:** The Fiscal Officer referred to Appendix A of the Village Officer's Handbook, March-2012, and it has been removed. The Village Fiscal Officer has requested the general guidance and training from Local Government Services Section of the Auditor of State's Office.

**FINDING NUMBER 2011-08**

**Material Weakness – Monitoring/Segregation of Duties**

When designing the public office's system of internal control and the specific control activities, management should plan for adequate segregation of duties or compensating controls.

The size of the Village's staff did not allow for an adequate segregation of duties. The Fiscal Officer performed all accounting functions, including receipts, depositing, disbursing, and reconciling. It is therefore important that the Village Council monitor financial activity closely.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2011-08 (Continued)**

**Material Weakness – Monitoring/Segregation of Duties (Continued)**

Council did not consistently review financial or operating reports. Bank reconciliations were only prepared for 2010. No processes existed to identify unusual fluctuations between accounts or between fiscal years. This resulted in material errors which are discussed in Finding 2011-07.

We recommend Village Council review financial reports (dealing with both revenues and expenditures) and bank reconciliations on a monthly basis. This should be documented in the minute record. Also, we recommend the Village create and enforce policies and procedures such as review of monthly financial reports and reconciliations by an individual other than the preparer. This should be indicated by initialing and dating the reports and reconciliations. This will ensure that transactions are posted timely. We also recommend Council make appropriate inquiries to help ensure the continued integrity of financial information. Appropriate inquiries would include:

- \* Are current receipts sufficient to cover expenditures?
- \* Are receipts and expenditures in line with prior years?
- \* If unusual fluctuations in receipts or expenditures occur, is the reason understood?
- \* Are anticipated receipts being received in a timely manner?

The information obtained as a result of such reviews and inquiries will provide important data necessary to properly manage the Village.

**Official's Response:** The Village will try to implement monthly cash journal reconciliations, give to Council for approval and have another individual review them and document it in the minutes.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-01	Ohio Rev. Code Section 5705.10(H) for negative fund balances.	No	Not corrected. Repeated in the current audit as Finding 2011-02
2009-02	Ohio Rev. Code Section 5705.39 for appropriations exceeding the estimated resources.	No	Not corrected. Repeated in the current audit as Finding 2011-04
2009-03	Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations.	No	Not corrected. Repeated in the current audit as Finding 2011-05
2009-04	Ohio Rev. Code Section 5705.41(D)(1) for not properly encumbering.	No	Not corrected. Repeated in the current audit as Finding 2011-06
2009-05	Ohio Rev. Code Section 5705.14 for posting unapproved interfund transfers	No	Not corrected. Repeated in the current audit as Finding 2011-03.
2009-06	Ohio Rev. Code Section 5705.38(C) for adopting appropriations at the fund level.	Yes	N/A.
2009-07	Ohio Rev. Code Section 5705.36(A)(2) for appropriations exceeding actual resources.	Yes	N/A.
2009-08	Ohio Rev. Code Section 149.351 for damage or destruction of public records.	No	Partially corrected. Repeated in the current audit in a separate letter to management
2009-09	Ohio Admin. Code 117-2-02(A) for failure to maintain the required accounting records.	No	Not corrected. Repeated in the current audit as Finding 2011-01.
2009-10	Significant Deficiency for failure to reconcile the accounting reports to the annual report.	No	Repeated in the current audit as Finding 2011-01
2009-11	Significant Deficiency for failure to issue pre-numbered, duplicate receipts for donations.	Yes	N/A.
2009-12	Significant Deficiency for lack of segregation of duties	No	Repeated in the current audit as Finding 2011-08





# Dave Yost • Auditor of State

VILLAGE OF CHESTERHILL

MORGAN COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
DECEMBER 13, 2012