



Dave Yost • Auditor of State

VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Chesapeake, Lawrence County, Ohio (the Village) as of and for the years ended December 31, 2014 and 2013.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2014 and 2013, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Village of Chesapeake, Lawrence County as of December 31, 2014 and 2013, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2016, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

June 9, 2016

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$20,963	\$26,342	\$47,305
Intergovernmental	27,120	68,297	95,417
Fines, Licenses and Permits	130,920	2,395	133,315
Earnings on Investments	37	8	45
Miscellaneous	2,109	4,751	6,860
	181,149	101,793	282,942
Cash Disbursements			
Current:			
Security of Persons and Property	101,724	22,295	124,019
Leisure Time Activities	0	1,986	1,986
Transportation	0	51,299	51,299
General Government	76,512	0	76,512
Capital Outlay	0	1,396	1,396
Debt Service:			
Principal Retirement	0	15,810	15,810
Interest and Fiscal Charges	0	3,576	3,576
	178,236	96,362	274,598
<i>Total Cash Disbursements</i>	178,236	96,362	274,598
<i>Excess of Receipts Over (Under) Disbursements</i>	2,913	5,431	8,344
Other Financing Receipts (Disbursements)			
Other Financing Uses	(16)	(278)	(294)
<i>Total Other Financing Receipts (Disbursements)</i>	(16)	(278)	(294)
<i>Net Change in Fund Cash Balances</i>	2,897	5,153	8,050
<i>Fund Cash Balances, January 1</i>	2,736	71,451	74,187
Fund Cash Balances, December 31			
Restricted			
Drug and Alcohol Education and Enforcement		3,999	3,999
Indigent Court		5,042	5,042
Mayor's Court Computer		4,301	4,301
Fire Operations		41,898	41,898
Park / Recreation		1,501	1,501
Road Maintenance and Improvements	0	19,863	19,863
Assigned	5,633	0	5,633
	\$5,633	\$76,604	\$82,237
<i>Fund Cash Balances, December 31</i>	\$5,633	\$76,604	\$82,237

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

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Fiduciary Fund Types		Totals
	Agency	Private Purpose Trust	(Memorandum Only)
Non-Operating Receipts (Disbursements)			
Other Financing Sources	\$139,581	\$0	\$139,581
Other Financing Uses	(127,177)	0	(127,177)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>12,404</u>	<u>0</u>	<u>12,404</u>
<i>Net Change in Fund Cash Balances</i>	12,404	0	12,404
<i>Fund Cash Balances, January 1</i>	<u>36,077</u>	<u>1,000</u>	<u>37,077</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$48,481</u></u>	<u><u>\$1,000</u></u>	<u><u>\$49,481</u></u>

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

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$20,300	\$25,454	\$45,754
Intergovernmental	20,705	65,544	86,249
Fines, Licenses and Permits	149,814	2,514	152,328
Earnings on Investments	40	106	146
Miscellaneous	9,189	2,048	11,237
<i>Total Cash Receipts</i>	<u>200,048</u>	<u>95,666</u>	<u>295,714</u>
Cash Disbursements			
Current:			
Security of Persons and Property	123,319	30,192	153,511
Leisure Time Activities	0	2,568	2,568
Transportation	0	48,913	48,913
General Government	83,766	2,666	86,432
Capital Outlay	1,000	2,325	3,325
Debt Service:			
Principal Retirement	0	15,332	15,332
Interest and Fiscal Charges	0	4,054	4,054
<i>Total Cash Disbursements</i>	<u>208,085</u>	<u>106,050</u>	<u>314,135</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(8,037)</u>	<u>(10,384)</u>	<u>(18,421)</u>
Other Financing Receipts (Disbursements)			
Other Financing Sources	1,053	0	1,053
Other Financing Uses	(137)	0	(137)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>916</u>	<u>0</u>	<u>916</u>
<i>Net Change in Fund Cash Balances</i>	<u>(7,121)</u>	<u>(10,384)</u>	<u>(17,505)</u>
<i>Fund Cash Balances, January 1 - Restated - See Note 8</i>	<u>9,857</u>	<u>81,835</u>	<u>91,692</u>
Fund Cash Balances, December 31			
Restricted			
Drug and Alcohol Education and Enforcement		3,754	3,754
Indigent Court		4,539	4,539
Mayor's Court Computer		4,008	4,008
Fire Operations		43,498	43,498
Park / Recreation		2,696	2,696
Road Maintenance and Improvements		12,956	12,956
Assigned	2,736	0	2,736
<i>Fund Cash Balances, December 31</i>	<u>\$2,736</u>	<u>\$71,451</u>	<u>\$74,187</u>

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

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL FIDUCIARY FUND TYPES
FOR THE YEAR ENDE DECEMBER 31, 2013**

	Fiduciary Fund Types		Totals
	Agency	Private Purpose Trust	(Memorandum Only)
Non-Operating Receipts (Disbursements)			
Other Financing Sources	\$178,678	\$0	\$178,678
Other Financing Uses	(156,718)	0	(156,718)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>21,960</u>	<u>0</u>	<u>21,960</u>
<i>Net Change in Fund Cash Balances</i>	21,960	0	21,960
<i>Fund Cash Balances, January 1 - Restated - See Note 8</i>	<u>14,117</u>	<u>1,000</u>	<u>15,117</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$36,077</u></u>	<u><u>\$1,000</u></u>	<u><u>\$37,077</u></u>

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

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Chesapeake, Lawrence County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides park operations, police services and fire protection services.

The Village participates in the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. Note 7 to the financial statements provides additional information for this entity.

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 permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. Deposits and Investments

The Village has one primary interest bearing checking account and no investments.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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

3. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

The Village's Private Purpose Trust Fund is for the benefit of Columbia Gas and the Village of Chesapeake.

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

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. 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 approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2014 and 2013 budgetary activity appears in Note 3.

VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance

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

1. **Nonspendable**

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

2. **Restricted**

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

3. **Committed**

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

4. **Assigned**

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

5. **Unassigned**

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

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

G. Property, Plant, and Equipment

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

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

H. Accumulated Leave

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

2. Equity in Pooled Deposits

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

	2014	2013
Demand deposits	\$83,237	\$75,187
Mayor's Court	48,481	36,077
Total deposits	\$131,718	\$111,264

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

2014 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$244,515	\$181,149	(\$63,366)
Special Revenue	90,732	101,793	11,061
Trust			0
Total	\$335,247	\$282,942	(\$52,305)

2014 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$204,822	\$178,252	\$26,570
Special Revenue	166,843	96,640	70,203
Trust	1,001		1,001
Total	\$372,666	\$274,892	\$97,774

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

3. Budgetary Activity (Continued)

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$210,792	\$201,101	(\$9,691)
Special Revenue	94,940	95,666	726
Trust			0
Total	\$305,732	\$296,767	(\$8,965)

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$220,677	\$208,222	\$12,455
Special Revenue	176,775	106,050	70,725
Trust	1,001		1,001
Total	\$398,453	\$314,272	\$84,181

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.

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

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, 2014 was as follows:

	Principal	Interest Rate
City National Bank Loan	\$65,352	4%
OPWC Loan CU051	\$35,000	0%
OPWC Loan CT54K	\$11,056	0%
Lawrence County Commissioner's Note	14,937	6%
Total	\$126,345	

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

5. Debt (Continued)

The City National Bank Loan relates to the purchase of a new fire truck purchased in 2000. The original loan was in the amount of \$180,078 for a period of five years to be paid in 59 regular monthly installments of \$1,273 and a final payment estimated at \$153,732. The loan was renewed in 2005 in an amount of \$151,732 for a period of five years to be paid in 59 regular monthly installments of \$1,127 and a final payment estimated at 112,099. In 2010, the loan was renewed in an amount of 111,340 for a period of five years to be paid in 59 regular monthly installments of \$1,131 and a final estimated payment of \$62,403. On May 24, 2015 the loan was renewed in an amount of \$61,117 for a period of five years at a fixed rate of 4% to be paid in 59 regular payments of \$1,126, including interest, and a final estimated payment of \$1,242, including interest. The loan is collateralized by the fire truck and associated equipment.

OPWC Loan CU05I was for repair of a landslide and is payable in semi-annual installments of \$1,250 over a period of 20 years. OPWC loan CT54K was also for the repair of a landslide and is payable in semi-annual installments of \$381 over a period of 20 years. These loans originated in 2008.

The Lawrence County Commissioners Note's purpose is to finance the 10% local portion of an OPWC grant project for repair work on North Huntington Heights. The annual obligation is one payment of \$5,112, including interest. Lawrence County has agreed to pay for half of this original obligation each year in the amount of \$2,556. The annual obligation for the Village is one payment of \$2,556, including interest. Principal and interest payments are being made from the Street Construction, Maintenance and Repair Fund.

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

Year ending December 31:	City National Bank Loan	OPWC Loan CU05I	OPWC Loan CT54K	Lawrence County Commissioners Note
2015	\$74,805	\$2,500	\$762	\$2,556
2016	13,507	2,500	762	2,556
2017	13,507	2,500	762	2,556
2018	13,507	2,500	762	2,556
2019	13,507	2,500	762	2,556
2020-2024	5,744	12,500	3,813	5,112
2025-2029		10,000	3,433	
Total	<u>\$134,577</u>	<u>\$35,000</u>	<u>\$11,056</u>	<u>\$17,892</u>

2015 amount relating to the City National Bank Loan includes the final estimated payment of \$62,403 relating to the loan renewed in 2010.

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

6. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. For 2014 and 2013, 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, 2014.

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, 2014, PEP retained \$350,000 for casualty claims and \$100,000 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 net position at December 31, 2013 and 2014.

	<u>2013</u>	<u>2014</u>
Assets	\$34,411,883	\$35,402,177
Liabilities	(12,760,194)	(12,363,257)
Net Position	<u>\$21,651,689</u>	<u>\$23,038,920</u>

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

7. Risk Management (Continued)

At December 31, 2013 and 2014, respectively, the liabilities above include approximately 11.6 million and \$11.1 million of estimated incurred claims payable. The assets above also include approximately \$11.1 million and \$10.8 million of unpaid claims to be billed. The Pool's membership increased from 475 members in 2013 to 488 members in 2014. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2014, the Government's share of these unpaid claims collectible in future years is approximately \$8,628.

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.

<u>Contributions to PEP</u>	
<u>2013</u>	<u>2014</u>
\$12,376	\$13,072

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. Restatement of Balances

The January 1, 2013 balances were restated for the Special Revenue and Private Purpose Trust Funds due to a fund reclassification.

Fund Type	December 31, 2012 Audited Balance	January 1, 2013 Restated Balance	Restatement Amount
Special Revenue	\$82,835	\$81,835	(\$1,000)
Private Purpose Trust	0	1,000	1,000
Total	\$82,835	\$82,835	\$0

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

9. Subsequent Event

On May 24, 2015 the City National Bank Loan relating to the 2000 Fire Truck purchase was renewed in an amount of \$61,117 for a period of five years at a fixed rate of 4%.

10. Contingent Liabilities

The Village is involved in legal proceedings. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

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Dave Yost • Auditor of State

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

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

To the Village Council:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of Chesapeake, Lawrence County, Ohio (the Village) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated June 9, 2016, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying Schedule of Findings we identified certain deficiencies in internal control over financial reporting, that we consider a material weakness and 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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider Finding 2014-003 in the accompanying Schedule of Findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Finding 2014-004 described in the accompanying Schedule of Findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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 2014-001 and 2014-002.

Entity's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

June 9, 2016

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2014-001

Noncompliance Citation

Ohio Rev. Code, Section 2949.091(A)(1), states that a court in which any person is convicted of or pleads guilty to any offense shall impose one of the following sums as costs in the case in addition to any other court costs that the court is required by law to impose upon the offender:

- (i) Thirty dollars if the offense is a felony;
- (ii) Twenty dollars if the offense is a misdemeanor other than a traffic offense that is not a moving violation;
- (iii) Ten dollars if the offense is a traffic offense that is not a moving violation, excluding parking violations.

All such moneys collected during a month shall be transmitted on or before the twentieth day of the following month by the clerk of the court to the treasurer of state and deposited by the treasurer of state into the general revenue fund. The court shall not waive the payment of the additional twenty dollars court costs, unless the court determines that the offender is indigent and waives the payment of all court costs imposed upon the indigent offender.

Ohio Rev. Code, Section 2949.094(A), states the court in which any person is convicted of or pleads guilty to any moving violation shall impose an additional court cost of ten dollars upon the offender. The court shall not waive the payment of the ten dollars unless the court determines that the offender is indigent and waives the payment of all court costs imposed upon the indigent offender.

The clerk of the court shall transmit thirty-five per cent of all additional court costs collected pursuant to this division during a month on or before the twenty-third day of the following month to the state treasury of which ninety-seven per cent shall be credited to the drug law enforcement fund created under Ohio Rev. Code Section 5502.68 and the remaining three per cent shall be credited to the justice program services fund created under Ohio Rev. Code Section 5502.67. The clerk shall transmit fifteen per cent of all additional court costs so collected during a month on or before the twenty-third day of the following month to the county or municipal indigent drivers alcohol treatment fund under the control of that court, as created by the county or municipal corporation under division (H) of Ohio Revised Code Section 4511.191. The clerk shall transmit fifty per cent of all additional court costs so collected during a month on or before the twenty-third ay of the following month to the state treasury to be credited to the indigent defense support fund created pursuant to Ohio Revised Code Section 120.08.

The Village of Chesapeake Mayor's Court collected the fines outlined above starting in June 2012 and continuing through the end of the period under audit; however, the Village retained the fine amounts collected but due to the County and the fine amounts collected but due to the State. This resulted in the following amounts being due to the County and State of Ohio:

**FINDING NUMBER 2014-001
 (Continued)**

Year	Amount Due to Lawrence County Court
2012	\$791
2013	1,160
2014	796
Total:	\$2,747

This amount was paid to the Lawrence County Court on August 17, 2015.

Year	Amount Due to State of Ohio
2012	\$13,139
2013	19,311
2014	13,155
Total:	\$45,605

This amount was paid to the State of Ohio on April 18, 2016.

Village management indicated that fine amounts collected were not remitted to the County and State due to confusion regarding which agency the monies should be remitted to. We recommend the Village Mayor's Court determine the appropriate amounts of fines collected to be remitted to each agency and remit those amounts in accordance with the Ohio Revised Code Sections governing the collections.

Officials' Response:

The Village has updated its Fine Chart and has provided a copy to its auditors.

FINDING NUMBER 2014-002

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. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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.

FINDING NUMBER 2014-002
(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 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 Village.
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. 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 extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The availability of funds was not certified for 74% of the expenditures tested for 2013 and 2014. Failure to properly certify funds could result in overspending and negative fund balances. Also, we reviewed expenditures for material unrecorded encumbrances at year ends 2013 and 2014 and identified General Fund expenditures in the amount of \$1,524 which were not properly encumbered at year end.

We recommend the Village obtain the Clerk/Treasurer’s certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language Ohio Revised Code Section 5705.41(D) requires to authorize disbursements. The Clerk/Treasurer 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 Clerk/Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials’ Response:

The Village will strive to monitor this item to ensure they are in accordance with the Ohio Revised Code.

FINDING NUMBER 2014-003

Material Weakness

Sound financial reporting is the responsibility of the Village Clerk/Treasurer and Village Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

As a result of the audit procedures performed, we identified the following errors in the Financial Statements:

In 2014:

- General Fund intergovernmental revenues totaling \$1,387 were classified as property and other local taxes.
- General Fund assigned fund balance in the amount of \$5,633 for subsequent year appropriations exceeding estimated receipts was classified as unassigned.
- The Village Mayor's Court activity (\$36,077 beginning balance; \$139,581 revenues; and \$127,177 expenditures) was not included in the financial statements as an agency fund.
- Fire Fund intergovernmental revenues in the amount of \$4,927 were classified as miscellaneous revenues.
- Fire Fund intergovernmental revenues in the amount of \$598 were classified as property and other local taxes.
- Fire Truck Levy Fund intergovernmental revenues in the amount of \$857 were classified as property and other local taxes.
- Street Construction Maintenance and Repair Fund principal payment expenditures in the amount of \$5,028 and interest expenditures in the amount of \$790 were classified as transportation expenses.
- New Auto monies in the amount of \$446 were posted to the General Fund instead of the Street Construction Maintenance and Repair Fund.

In 2013:

- General Fund intergovernmental revenues totaling \$2,813 were classified as property and other local taxes.
- General Fund miscellaneous revenue was overstated by \$1,000 as a result of Trust Fund monies being recorded as a receipt instead of being reflected in the beginning balances.
- General Fund assigned fund balance in the amount of \$2,736 for subsequent year appropriations exceeding estimated receipts was classified as unassigned.
- The Village Mayor's Court activity (\$14,117 beginning balance; \$178,678 revenues; and \$156,718 expenditures) was not included in the financial statements as an agency fund.
- Fire Fund intergovernmental revenues in the amount of \$4,330 were classified as miscellaneous revenues.

FINDING NUMBER 2014-003
(Continued)

- Fire Fund intergovernmental revenues in the amount of \$578 were classified as property and other local taxes.
- Fire Truck Levy Fund intergovernmental revenues in the amount of \$829 were classified as property and other local taxes.
- Street Construction Maintenance and Repair Fund principal payment expenditures in the amount of \$3,262 were classified as transportation expenses.

The Village Clerk/Treasurer made classification errors in posting of revenues and expenditures. The audited financial statements and the Village's accounting system have been adjusted for the issues noted above, as appropriate.

Inaccurate and incomplete financial statements do not provide officials with the information required to make informed decisions. We recommend the Village Clerk/Treasurer review the Village Officer's Handbook for guidance on the correct line items to post receipts and disbursements to ensure the Village's financial statements are complete and accurate. We further recommend the Village Clerk/Treasurer implement procedures to reflect activity of the Mayor's Court as an agency fund on the Village's financial statements.

Officials' Response:

The Village has made the adjustments to its accounting system and will strive to improve this item for future audits.

FINDING NUMBER 2014-004

Significant Deficiency

The management of each local public office is responsible for the assertions underlying the information in the public office's financial statements including ensuring that recorded assets exist as of fiscal year end, recorded transactions have occurred and are not fictitious and that all account balances and transactions that should be included in the financial records are included.

Although the Village Mayor's Court Clerk prepares monthly reconciliations of receipts to disbursements for the preparation of the monthly report to the Village Council, formal monthly reconciliations of book and open item amounts on hand to the bank balance were not performed. These conditions not only increase the risk of undetected accounting errors, but increase the risk that fraud or theft may occur and not be detected. Bank account reconciliations for the Mayor's Court should be performed monthly by the Clerk in order to detect errors or misstatements. The bank account reconciliation should include a comparison of the bank account balance to the book balance. The Clerk has not prepared a formal reconciliation from the Court system cashbook, bonds on hand, deposits on hand, and open items listing to the bank accounts. By not performing formal and accurate reconciliations each month, errors have gone undetected and possibly have accumulated.

We recommend the Clerk of the Mayor's Court prepare monthly reconciliations between the Court system cashbook and open items listing to the bank account balance each month. We further recommend the Clerk of the Mayor's Court review month end reports, cash on hand, and open items to ensure they are accurate and complete when being utilized for the reconciliation.

**FINDING NUMBER 2014-004
(Continued)**

Officials' Response:

The Village will strive to improve this item for future audits. The Village will also request its auditors to provide guidance or examples of procedures to be performed.

**VILLAGE OF CHESAPEAKE
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014 AND 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	Material noncompliance / significant deficiency relating to Ohio Administrative Code Section 117-2-02A for Mayor's Court cash journal not being accessible for the month of January 2011.	Yes	
2012-002	Ohio Revised Code Section 5705.41(D) – Funds not properly certified in advance of expenditure.	No	Not Corrected. See Finding Number 2014-002.
2012-003	Material Weakness relating to adjustments and reclassifications due to errors in the receipting and disbursing process.	No	Not Corrected. See Finding Number 2014-003.

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Dave Yost • Auditor of State

VILLAGE OF CHESAPEAKE

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 28, 2016