



**Auditor of State  
Betty Montgomery**



VILLAGE OF CHESTERHILL  
MORGAN COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

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, 2003 and 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, except for the omission of receipt and disbursement classifications, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Village of Chesterhill, Morgan County, as of December 31, 2003 and 2002, and its unclassified cash receipts and unclassified cash disbursements for the years then ended on the basis of accounting described in Note 1.

The Auditor of State has billed the Village for audit services provided for the years ending December 31, 2001, 2000, 1999 and 1998. As of the date of this report, the Village has been billed \$8,984 for the December 31, 2001 and 2000 audit and has yet to pay \$8,984, and has been billed \$7,921 for the December 31, 1999 and 1998 audit and has yet to pay \$3,314. The total unpaid audit fees are \$12,298.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the financial statements of the Village, taken as a whole. The accompanying Schedule of Federal Awards Expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, Village Council, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be, and should not be used by anyone other than those specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

August 18, 2004

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN FUND CASH BALANCES  
ALL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

<b><u>Funds:</u></b>	<b><u>Balance</u> <u>1/1/2003</u></b>	<b><u>Receipts</u></b>	<b><u>Disbursements</u></b>	<b><u>Balance</u> <u>12/31/2003</u></b>
General Fund	\$ 13,515	\$ 39,251	\$ 42,584	\$ 10,182
Special Revenue Funds:				
Street Construction, Maintenance and Repair	3,417	10,123	10,165	3,375
State Highway Improvement	2,448	771	1,238	1,981
FEMA	0	2,580	2,580	0
Fire	6,673	6,504	10,647	2,530
	<u>12,538</u>	<u>19,978</u>	<u>24,630</u>	<u>7,886</u>
Total Special Revenue Funds				
Capital Projects Funds:				
Theatre	0	1,384	0	1,384
Union Hall Renovation	7,797	70	2,540	5,327
	<u>7,797</u>	<u>1,454</u>	<u>2,540</u>	<u>6,711</u>
Total Capital Projects Funds				
Enterprise Funds:				
Water	22,876	125,079	133,607	14,348
Water Tower Improvement	16,611	7,128	6,943	16,796
	<u>39,487</u>	<u>132,207</u>	<u>140,550</u>	<u>31,144</u>
Total Enterprise Funds				
<b>Total All Funds</b>	<b><u>\$ 73,337</u></b>	<b><u>\$ 192,890</u></b>	<b><u>\$ 210,304</u></b>	<b><u>\$ 55,923</u></b>

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

VILLAGE OF CHESTERHILL  
MORGAN COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN FUND CASH BALANCES  
ALL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2002

<u>Funds:</u>	<u>Balance</u> <u>1/1/2002</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>12/31/2002</u>
General Fund	\$ 9,599	\$ 39,054	\$ 35,138	\$ 13,515
Special Revenue Funds:				
Street Construction, Maintenance and Repair	2,571	10,355	9,509	3,417
State Highway Improvement	2,077	840	469	2,448
Fire	<u>6,405</u>	<u>6,927</u>	<u>6,659</u>	<u>6,673</u>
Total Special Revenue Funds	<u>11,053</u>	<u>18,122</u>	<u>16,637</u>	<u>12,538</u>
Capital Projects Fund:				
Union Hall Renovation	9,162	156	1,521	7,797
Enterprise Funds:				
Water	31,162	115,436	123,722	22,876
Water Tower Improvement	<u>49,895</u>	<u>443,719</u>	<u>477,003</u>	<u>16,611</u>
Total Enterprise Funds	<u>81,057</u>	<u>559,155</u>	<u>600,725</u>	<u>39,487</u>
<b>Total All Funds</b>	<b><u>\$ 110,871</u></b>	<b><u>\$ 616,487</u></b>	<b><u>\$ 654,021</u></b>	<b><u>\$ 73,337</u></b>

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



**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

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

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

**B. Basis of Accounting**

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

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

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

**C. Cash and Investments**

The Village Clerk invests all available funds of the Village in an interest-bearing checking account and STAROhio (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 and investments that are restricted as to use. The Village classifies its funds into the following types:

**1. General Fund**

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Funds**

These funds are used to account for proceeds from specific sources (other than for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

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

**D. Fund Accounting (Continued)**

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

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

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

**3. Capital Projects Funds**

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

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

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

**4. Enterprise Funds**

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

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

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

**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, 2003 AND 2002  
(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 Township to reserve (encumber) appropriations when individual commitments are made. The Village did not encumber any commitments as required by Ohio law.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

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

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	<u>2003</u>	<u>2002</u>
Deposits:		
Demand Deposits	\$ 12,639	\$ 34,230
Investments:		
STAROhio	<u>43,284</u>	<u>39,107</u>
Total deposits and investments	<u>\$ 55,923</u>	<u>\$ 73,337</u>

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

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 0	\$ 39,251	\$ 39,251
Special Revenue	0	19,978	19,978
Capital Projects	0	1,454	1,454
Enterprise	0	132,207	132,207
Total	<u>\$ 0</u>	<u>\$ 192,890</u>	<u>\$ 192,890</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 70,407	\$ 42,584	\$ 27,823
Special Revenue	17,575	24,630	(7,055)
Capital Projects	0	2,540	(2,540)
Enterprise	103,905	140,550	(36,645)
Total	<u>\$ 191,887</u>	<u>\$ 210,304</u>	<u>\$ (18,417)</u>

2002 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 0	\$ 39,054	\$ 39,054
Special Revenue	0	18,122	18,122
Capital Projects	0	156	156
Enterprise	0	559,155	559,155
Total	<u>\$ 0</u>	<u>\$ 616,487</u>	<u>\$ 616,487</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 70,407	\$ 35,138	\$ 35,269
Special Revenue	17,575	16,637	938
Capital Projects	0	1,521	(1,521)
Enterprise	460,975	600,725	(139,750)
Total	<u>\$ 548,957</u>	<u>\$ 654,021</u>	<u>\$ (105,064)</u>

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

The certificate of the total amount from all sources available for expenditure was not prepared or filed with the County Budget Commission in either 2002 or 2003, contrary to Ohio law. Consequently, no certificates of estimated revenue were received from the County Budget Commission for either year. Accordingly, appropriations from all funds exceeded available resources for both 2003 and 2002, contrary to Ohio law. Expenditures exceeded appropriations in the Street Construction, Maintenance and Repair Fund, State Highway Improvement Fund, Fire Fund, FEMA Fund, Union Hall Renovation Fund and Water Fund for 2003 and in the Union Hall Renovation Fund, Water Fund and Water Tower Improvement Fund for 2002, contrary to Ohio law.

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as part of the total cash receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

**5. DEBT**

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest
Septic System Commercial Loan	\$ 2,095	4.72%
Kubota Tractor Loan	8,257	2.99%
Ohio Water Development Authority Loan # 1517	238,516	7.45%
Ohio Water Development Authority Loan # 1518	25,194	6.51%
Ohio Water Development Authority Loan # 3526	159,379	1.50%
Total	\$ 433,441	

The septic system commercial loan was obtained to provide financing for the upgrades of a septic system at the Little Red House. The General Fund is being used to repay this debt.

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

The Ohio Water Development Authority (OWDA) loans relate to funding upgrades in the Village utility system to meet EPA standards. The Village has pledged the revenues from the utility system to pay for the OWDA loans.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**5. DEBT (Continued)**

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

Year Ending December 31:	Septic System Commercial Loan	Kubota Tractor Loan	OWDA Loan 1517	OWDA Loan 1518	OWDA Loan 3526
2004	\$ 1,731	\$ 1,997	\$ 13,734	\$ 1,369	\$ 3,966
2005	433	1,997	27,468	2,738	7,932
2006		1,997	27,468	2,738	7,932
2007		1,997	27,468	2,738	7,932
2008		830	27,468	2,738	7,932
Subsequent			274,674	27,377	186,385
<b>Total</b>	<b>\$ 2,164</b>	<b>\$ 8,818</b>	<b>\$ 398,280</b>	<b>\$ 39,698</b>	<b>\$ 222,079</b>

**6. RETIREMENT SYSTEM**

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, members of PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all employer contributions required through December 31, 2003.

**7. RISK MANAGEMENT**

**Risk Pool Membership**

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. PEP is a member of the American Public Entity Excess Pool (APEEP). 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 Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

**Risk Pool Membership (Continued)**

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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

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, 2003 and 2002:

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$ 25,288,098	\$ 20,174,977
Liabilities	<u>(12,872,985)</u>	<u>(8,550,749)</u>
Retained Earnings	<u>\$ 12,415,113</u>	<u>\$ 11,624,228</u>
<u>Property Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$ 3,158,813	\$ 2,565,408
Liabilities	<u>(792,061)</u>	<u>(655,318)</u>
Retained Earnings	<u>\$ 2,366,752</u>	<u>\$ 1,910,090</u>

The Village has also obtained commercial coverage for public official and employee bonds.

**8. CONTINGENT LIABILITIES**

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

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**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2002**

<b>FEDERAL GRANTOR</b> <i>Pass-Through Grantor</i>	Federal CFDA	Pass-Through Entity	Disbursements
Program Title	Number	Number	
<b>UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<i>Passed through the Ohio Department of Development:</i>			
Community Development Block Grant - State's Program	14.228	C-P-01-240-1	\$ 100,000
		C-W-00-240-1	222,184
Total Community Development Block Grant - State's Program			<u>322,184</u>
Total United States Department of Housing and Urban Development			<u>322,184</u>
<b>Total Federal Awards Expenditures</b>			<b><u>\$ 322,184</u></b>

*The Notes to the Schedule of Federal Awards Expenditures are an integral part of this Schedule.*

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
DECEMBER 31, 2002**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes the activity of the Village's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – MATCHING REQUIREMENTS**

Certain Federal programs require that the Village contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Village has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

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, 2003 and 2002, and have issued our report thereon dated August 18, 2004, which was qualified since the Village did not classify receipts and disbursements for its 2003 and 2002 financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2003-001 through 2003-007. We also noted certain immaterial instances of noncompliance that we have reported to the Village's management in a separate letter dated August 18, 2004.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2003-001, 2003-002, and 2003-008.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider items 2003-001 and 2003-002 listed above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the Village's management in a separate letter dated August 18, 2004.

This report is intended for the information and use of management, the Village Council, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

August 18, 2004



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Village Council:

#### Compliance

We have audited the compliance of the Village of Chesterhill, Ohio (the Village), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2002. The Village's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Village's management. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

In our opinion, the Village complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings as item 2003-009.

#### Internal Control Over Compliance

The management of the Village is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, the Village Council, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

August 18, 2004

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2003 AND 2002**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Community Development Block Grant – State's Program – CFDA #14.228
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

**FINDING NUMBER 2003-001**

**Noncompliance Citation/Material Weakness**

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2003 AND 2002  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2003-001 (Continued)**

**Noncompliance Citation/Material Weakness (Continued)**

**Ohio Rev. Code Section 149.351 (Continued)**

Voucher packages did not contain sufficient supporting documentation, such as original invoices, statements or vouchers for 30 percent of the nonpayroll transactions tested in 2002 and 2003. Of the transactions tested, 9 were to the same vendor for trash services provided to the Village. Although the Village had a contract with this vendor, the contract only specified as to how much each customer served was charged. There were no invoices from the vendor available to support the payments made.

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

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

**FINDING NUMBER 2003-002**

**Noncompliance Citation/Material Weakness**

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

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

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



VILLAGE OF CHESTERHILL  
MORGAN COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2003 AND 2002  
(Continued)

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

**FINDING NUMBER 2003-002 (Continued)**

**Noncompliance Citation/Material Weakness (Continued)**

**Ohio Admin. Code Section 117-2-02(A) (Continued)**

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

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

**FINDING NUMBER 2003-003**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.36 states that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the County Auditor the total amount from all sources which is available for expenditure from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.

For 2002 and 2003, the Village Clerk did not certify to the County Auditor the total amount from all sources available for expenditure from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year. As a result, the County Budget Commission did not certify estimated resources to the Village in either year.

We recommend the Village Clerk prepare and file with the County Auditor the total amount from all sources which is available for expenditure from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year on or about the first day of each fiscal year.

**FINDING NUMBER 2003-004**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.39 states the total appropriation from each fund shall not exceed the total estimated revenue.

Since the Village did not certify the amounts available to the County Auditor (per Finding 2003-003), appropriations exceeded estimated resources in the following funds at December 31, 2003:

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2003 AND 2002  
(Continued)**

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

**FINDING NUMBER 2003-004 (Continued)**

**Noncompliance Citation (Continued)**

**Ohio Rev. Code Section 5705.39 (Continued)**

Fund	Estimated Resources	Appropriations	Variance
General	\$0	\$70,407	(\$70,407)
Street Construction, Maintenance and Repair	\$0	\$9,500	(\$9,500)
State Highway and Improvement	\$0	\$1,000	(\$1,000)
Fire	\$0	\$7,075	(\$7,075)
Water	\$0	\$95,905	(\$95,905)
Water Tower Improvement	\$0	\$8,000	(\$8,000)

Similarly, appropriations exceeded estimated resources in the following funds at December 31, 2002:

Fund	Estimated Resources	Appropriations	Variance
General	\$0	\$70,407	(\$70,407)
Street Construction, Maintenance and Repair	\$0	\$9,500	(\$9,500)
State Highway and Improvement	\$0	\$1,000	(\$1,000)
Fire	\$0	\$7,075	(\$7,075)
Water	\$0	\$87,975	(\$87,975)
Water Tower Improvement	\$0	\$373,000	(\$373,000)

This was a result of the condition identified in finding 2003-003 noted above.

We recommend the Village compare appropriations to estimated resources throughout the year and make the necessary budgetary adjustments to ensure that appropriations do not exceed estimated resources. This comparison should be performed whenever amendments are approved by the Village Council and posted to the financial records.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2003 AND 2002  
(Continued)**

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

**FINDING NUMBER 2003-005**

**Noncompliance Citation**

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

Expenditures exceeded appropriations at December 31, 2003, in the following funds:

Fund	Appropriation Authority	Actual Expenditures	Variance
Street Construction, Maintenance and Repair	\$9,500	\$10,165	(\$665)
State Highway Improvement	\$1,000	\$1,238	(\$238)
Fire	\$7,075	\$10,647	(\$3,572)
FEMA	\$0	\$2,580	(\$2,580)
Union Hall Renovation	\$0	\$2,540	(\$2,540)
Water	\$95,905	\$133,607	(\$37,702)

Expenditures exceeded appropriations at December 31, 2002, in the following funds:

Fund	Appropriation Authority	Actual Expenditures	Variance
Union Hall Renovation	\$0	\$1,521	(\$1,521)
Water	\$87,975	\$123,722	(\$35,747)
Water Tower Improvement	\$373,000	\$477,003	(\$104,003)

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

**FINDING NUMBER 2003-006**

**Noncompliance Citation**

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

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2003 AND 2002  
(Continued)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2003-006 (Continued)**

**Noncompliance Citation (Continued)**

**Ohio Rev. Code Section 5705.41(D) (Continued)**

The following exceptions to this basic requirement are provided by statute:

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

Amounts of less than \$100 for counties, or less than \$1,000 (\$3,000 after April 7, 2003) for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

None of the nonpayroll transactions executed in 2002 or 2003 had the prior certification of the Village Clerk.

We recommend the Village officials and employees obtain the Village Clerk's certification of the availability of funds prior to the commitment being incurred.

**FINDING NUMBER 2003-007**

**Noncompliance Citation**

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

During 2002, the Village paid the Village Administrator \$4,000 for services provided related to the financing and construction improvements of the Village water system. This payment was not included on the Village Administrator's W-2 form. The Village also paid the Village Administrator a vehicle allowance of \$200 per month for 2002 and 2003. The payment was not based on a rate of reimbursement per mile and no documentation was kept showing the number of miles or the calculation for the payment. This payment could be a taxable auto allowance.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2003 AND 2002  
(Continued)**

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

**FINDING NUMBER 2003-007 (Continued)**

**Noncompliance Citation (Continued)**

**26 C.F.R. Section 1.6041-2 (Continued)**

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

**FINDING NUMBER 2003-008**

**Reportable Condition**

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

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

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

**3. FINDINGS FOR FEDERAL AWARDS**

<b>Finding Number</b>	<b>2003-009</b>
<b>CFDA Title and Number</b>	<b>Community Development Block Grant – State’s Program CFDA #14.228</b>
<b>Federal Award Number/Year</b>	<b>C-P-01-240-1 C-W-00-240-1</b>
<b>Federal Agency</b>	<b>U.S. Department of Housing and Urban Development</b>
<b>Pass-Through Agency</b>	<b>Ohio Department of Development</b>

Office of Management and Budget Circular A-133 §.200(a) requires non-federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards to have a Single Audit conducted for that year. OMB Circular A-133 §.320(a) also requires the audit to be completed within nine months after the end of the audit period.

The Village expended in excess of \$300,000 in federal funds for 2002, and did not obtain a Single Audit within the nine-month period.

We recommend the Village contact the Auditor of State to schedule the Single Audit in a more timely fashion in future years.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 ' .315 (b)  
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2001-001	A material noncompliance citation/material weakness was issued under Ohio Rev. Code Section 149.351 for the destruction or damage of records.	No	Partially Corrected:  This issue is repeated in the current Schedule of Findings as item 2003-001.
2001-002	A material noncompliance citation was issued under Ohio Admin. Code Section 117-2-02(A) for the failure to maintain adequate accounting records.	No	Not Corrected:  This issue is repeated in the current Schedule of Findings as item 2003-002.
2001-003	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.36 for estimated resources exceeding actual revenue plus January 1 cash and appropriations were greater that actual revenue plus January 1 cash.	Yes	N/A
2001-004	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.39 for appropriations exceeding estimated resources.	No	Not Corrected:  This issue is repeated in the current Schedule of Findings as item 2003-004.
2001-005	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations.	No	Not Corrected:  The issue is repeated in the current Schedule of Findings as item 2003-005.
2001-006	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.41(D) for the failure to receive prior certification of available funds.	No	Not Corrected:  This issue is repeated in the current Schedule of Findings as item 2003-006.

**VILLAGE OF CHESTERHILL  
MORGAN COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315(c)  
DECEMBER 31, 2003 AND 2002**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-009	In the future, if the Village receives federal grants and has expenditures exceeding \$500,000 from those grants, the Village will contact the Auditor of State to arrange the necessary audit in a timely manner.	N/A	Richard Wetzel, Mayor







**Auditor of State  
Betty Montgomery**

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**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  
NOVEMBER 4, 2004**