



**Auditor of State
Betty Montgomery**

VILLAGE OF CHILO
CLERMONT COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Chilo
Clermont County
P.O.Box 23
Chilo, Ohio 45112

To the Village Council:

We have audited the accompanying financial statements of the Village of Chilo, Clermont 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 disbursements by fund type totals only. Ohio Administrative Code Section 117-2-02(A) requires governments to classify 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 disbursement classifications the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2003 and 2002, and its combined cash receipts and unclassified disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 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.

This report is intended solely for the information and use of management, Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, 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

October 14, 2004

**VILLAGE OF CHILO
CLERMONT COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property Tax and Other Local Taxes	\$1,881	\$336	\$2,217
Intergovernmental Receipts	19,120	1,116	20,236
Earnings on Investments		573	573
Miscellaneous	2,100		2,100
Unclassified Receipts		272	272
 Total Cash Receipts	 23,101	 2,297	 25,398
Cash Disbursements:			
Unclassified	40,918	5,240	46,158
 Total Cash Disbursements	 40,918	 5,240	 46,158
 Total Receipts Over/(Under) Disbursements	 (17,817)	 (2,943)	 (20,760)
Other Financing Receipts and (Disbursements):			
Transfers-In	5,816		5,816
Transfers-Out		(5,816)	(5,816)
 Total Other Financing Receipts/(Disbursements)	 5,816	 (5,816)	 0
 Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	 (12,001)	 (8,759)	 (20,760)
 Fund Cash Balances, January 1	 18,694	 22,232	 40,926
 Fund Cash Balances, December 31	 \$6,693	 \$13,473	 \$20,166

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

**VILLAGE OF CHILO
CLERMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property Tax and Other Local Taxes	\$2,514	\$210	\$2,724
Intergovernmental Receipts	27,367	41,913	69,280
Earnings on Investments	475	613	1,088
Miscellaneous	2,450		2,450
Unclassified Receipts	156	947	1,103
	<u>32,962</u>	<u>43,683</u>	<u>76,645</u>
Cash Disbursements:			
Capital Outlay		40,000	40,000
Unclassified	40,901		40,901
	<u>40,901</u>	<u>40,000</u>	<u>80,901</u>
Total Receipts Over/(Under) Disbursements	<u>(7,939)</u>	<u>3,683</u>	<u>(4,256)</u>
Fund Cash Balances, January 1	<u>26,633</u>	<u>18,549</u>	<u>45,182</u>
Fund Cash Balances, December 31	<u>\$18,694</u>	<u>\$22,232</u>	<u>\$40,926</u>

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

**VILLAGE OF CHILO
CLERMONT 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 Chilo, Clermont County, Ohio (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 transportation services. The Village contracts with the Clermont County Sheriff's department to provide security of persons and property.

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 Government did not classify its 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 disbursements.

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

C. Cash and Deposits

The Village has an interest bearing checking account and a certificate of deposit which are valued at cost.

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 from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

**VILLAGE OF CHILO
CLERMONT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

State Highway Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing state highways.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The 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.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. The Village did not use the encumbrance method of accounting. However, there were no unrecorded encumbrances at December 31, 2003 and 2002.

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 DEPOSITS

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

	2003	2002
Demand deposits	\$15,970	\$36,730
Certificates of deposit	4,196	4,196
Total deposits	<u>\$20,166</u>	<u>\$40,926</u>

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

**VILLAGE OF CHILO
CLERMONT 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

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$41,259	\$28,917	(\$12,342)
Special Revenue	2,998	2,297	(701)
Total	<u>\$44,257</u>	<u>\$31,214</u>	<u>(\$13,043)</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$40,931	\$40,918	\$13
Special Revenue	6,393	11,056	(4,663)
Total	<u>\$47,324</u>	<u>\$51,974</u>	<u>(\$4,650)</u>

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$35,732	\$32,962	(\$2,770)
Special Revenue	1,532	43,683	42,151
Total	<u>\$37,264</u>	<u>\$76,645</u>	<u>\$39,381</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$40,901	(\$40,901)
Special Revenue	0	40,000	(40,000)
Total	<u>\$0</u>	<u>\$80,901</u>	<u>(\$80,901)</u>

As of December 31, 2003 disbursements exceeded appropriations in the following funds: Street Maintenance and Repair Fund by \$4,490 and the State Highway Fund by \$181 and as of December 21, 2002 in the following funds: General by \$40,901 and the Community Development Block Grant by \$40,000

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by 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 Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, 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.

**VILLAGE OF CHILO
CLERMONT COUNTY**

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

4. PROPERTY TAX (Continued)

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. RETIREMENT SYSTEMS

All employees and officials who do not participate in the Public Employees Retirement System (PERS) should pay into Social Security. The Village only has the Council, Mayor, and Clerk which are all elected positions. None of the officials have elected to participate in PERS. Social Security was withheld from the public officials however the Village did not make contributions to Social Security or remit any of the employee withholdings to Social Security. The total payroll for 2003 was \$7,286 and \$6,554 for 2002.

6. RISK MANAGEMENT

The Village has obtained commercial insurance for comprehensive property and general liability.

7. COMPLIANCE

- Contrary to Ohio Rev. Code Section 117.38, the village did not prepare an annual report for 2003.



**Auditor of State
Betty Montgomery**

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

Village of Chilo
Clermont County
P.O. Box 23
Chilo, Ohio 45112

To the Village Council:

We have audited the accompanying financial statements of the Village of Chilo, Clermont County, Ohio (the Village), as of and for the years ended December 31 2003 and 2002, and have issued our report thereon dated October 14, 2004, which was qualified since the Village did not classify disbursements in its financial statements, and wherein we also qualified our opinion due to an overstatement of General Fund transfers in and cash balances and a corresponding decrease in Special Revenue Fund transfers out and cash balances as of and for the year ended December 31, 2003. 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 performed tests of 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 are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2003-001 through 2003-004.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated October 14, 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. The reportable conditions are described in the accompanying schedule of findings as item 2003-003 and 2003-005.

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. However, of the reportable conditions described above, we consider item 2003-003 to be a material weakness.

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 management of the Village in a separate letter dated October 14, 2004.

This report is intended solely for the information and use of management and Village Council, 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

October 14, 2004

VILLAGE OF CHILO
CLERMONT COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002

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

FINDING NUMBER 2003-001

Noncompliance Citation – Certification of Funds

Ohio Rev. Code, Section 5705.41(D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two exceptions to the above requirements:

- A. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000 (which was changed to \$3,000 effective April 7, 2003), the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Village Council, if such expenditure is otherwise valid.

Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

Contrary to the above requirement, prior certification was not obtained for any of the Village disbursements during 2003 and 2002, and neither of the two exceptions provided for above were utilized. Failure to certify the availability of funds and encumber appropriations could result in overspending funds and negative cash fund balances. Therefore, we recommend the Village obtain approved purchase orders, which contain the Clerk-Treasurer's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING NUMBER 2003-002

Noncompliance Citation – Annual Reports to the Auditor of State

Ohio Rev. Code, Section 117.38, Revised Code requires that cash-basis entities file annual reports with the Auditor of State within 60 days of the fiscal year end, and publish notification of availability of report. The Village did not make such a publishing and did not file an annual report with the Auditor of State for 2003. We recommend that the Village classify their receipts and disbursements and file their annual report with the Auditor of State's office within 60 days of the year end and that they publish a notification of the availability of the report in a local newspaper.

FINDING NUMBER 2001-30413-003

Noncompliance Citation/Reportable Condition – Accounting System

Ohio Rev. Code, Section 733.28, requires the Village Clerk to maintain the books of the Village and exhibit accurate statements of all monies received and expended. The Village's fiscal officer did not maintain a receipt ledger or appropriation ledger. The Village did not classify receipt and disbursement transactions. The Village was therefore unable to monitor compliance with its appropriation resolution. The Village was also unable to classify receipts by source or disbursements by purpose.

Audit adjustments were posted to the financial statements to classify receipts.

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. Per Ohio Admin. Code Section 117-2-02(C), accounting records that can help achieve these objectives include:

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

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.

The cash journal was not maintained accurately. We noted receipts were posted in the disbursement column and disbursements were posted in the receipt column and mathematical footing errors occurred. We also noted the total beginning fund balance did not agree to the total of the individual year end fund balances. We recommend that the Village Clerk take due care in posting entries to the cash journal to prevent errors. When performing bank reconciliations all activity of the Village should be posted so the bank and book balances agree.

FINDING NUMBER 2003-004

Noncompliance Citation - Expenditures over Appropriations

Ohio Rev. Code, Section 5705.41(B), states that no subdivision or taxing unit is to expend money unless it has been appropriated. Expenditures exceeded appropriations in the following funds and fiscal years:

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

Year	Fund	Appropriation Authority	Budgetary Expenditures	Variance
2002	General	\$0	\$40,901	(\$40,901)
2002	Community Development Block Grant	0	40,000	(40,000)
2003	Street	0	4,490	(4,490)
2003	State	569	750	(181)

The Clerk-Treasurer should deny payment requests exceeding appropriations. The Clerk-Treasurer may request the Village Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary and funds are available.

FINDING NUMBER 2003-005

Reportable Condition - Budgetary

Monitoring controls over budgetary compliance have not been placed in operation. The Village Council is not receiving and reviewing monthly financial reports detailing monthly and year-to-date budgetary information on a monthly basis. Appropriations and other budgetary information were not always documented as approved in the minutes. Receipt and appropriation ledgers were not maintained. The Clerk should provide council with up-to-date reports so budgetary activity can be reviewed by council. Council needs to become more proactive in the budgetary cycle.

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**VILLAGE OF CHILO
CLERMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
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; <i>Explain:</i>
2001-30413-001	Noncompliance – Certification of Funds	No	Not Corrected – Noncompliance citation repeated as Finding Number 2003-001
2001-30413-002	Noncompliance / Internal Control Recommendation – Annual Reports to Auditor of State	No	Not Corrected – Noncompliance citation repeated as Finding Number 2003-002
2001-30413-003	Noncompliance / Internal Control Recommendation – Uniform System of Accounting	No	The OAC changed since last audit. – Noncompliance citation under new Ohio law as Finding Number 2003-003



**Auditor of State
Betty Montgomery**

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**VILLAGE OF CHILO
CLERMONT 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 18, 2004**