

**VILLAGE OF CHESTERVILLE**  
**MORROW COUNTY**  
REPORT ON FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003





**Auditor of State  
Betty Montgomery**

Members of Council  
Village of Chesterville  
PO Box 13  
Chesterville, Ohio 43317-0013

We have reviewed the *Independent Auditors' Report* of the Village of Chesterville, Morrow County, prepared by Holbrook & Manter for the audit period January 1, 2003 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State's Office (AOS). Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the AOS permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Chesterville is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

January 24, 2006

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## **INDEPENDENT AUDITORS' REPORT**

Village Council  
Village of Chesterville  
Morrow County

We have audited the accompanying financial statements of the Village of Chesterville, Morrow County, Ohio, (the Village) as of and for the years ended December 31, 2004 and 2003. 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 audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

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

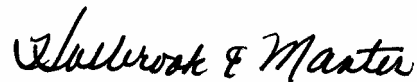
Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State of Ohio permits, but does not require, governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State of Ohio permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of Chesterville, Morrow County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Government has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2005 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Certified Public Accountants

November 21, 2005

**VILLAGE OF CHESTERVILLE**  
**MORROW COUNTY**  
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN  
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES-  
FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>GOVERNMENTAL FUND TYPES</b>			<b>Total Memorandum Only</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>	
<b>CASH RECEIPTS:-</b>				
Local taxes	\$ 12,560	\$ 2,650	\$ 0	\$ 15,210
Intergovernmental	18,900	6,006	19,500	44,406
Charges for services	1,782	0	0	1,782
Special assessments	1,876	0	0	1,876
Fines, licenses, and permits	813	0	0	813
Earnings on investments	370	31	0	401
Miscellaneous	205	310	0	515
<b>Total cash receipts</b>	<b>36,506</b>	<b>8,997</b>	<b>19,500</b>	<b>65,003</b>
<b>CASH DISBURSEMENTS:-</b>				
<b>Current:</b>				
Security of persons and property	5,490	0	0	5,490
Public health service	785	0	0	785
Leisure time activities	335	0	0	335
Community environment	1,700	0	0	1,700
Basic utility services	217	0	100	317
Transportation	4,290	18,597	0	22,887
General government	29,952	0	0	29,952
<b>Debt service:</b>				
Principal payment	4,443	0	0	4,443
Interest and fiscal charges	1,180	0	0	1,180
<b>Capital outlay</b>	<b>840</b>	<b>0</b>	<b>14,496</b>	<b>15,336</b>
<b>Total cash disbursements</b>	<b>49,232</b>	<b>18,597</b>	<b>14,596</b>	<b>82,425</b>
<b>Total receipts over (under) cash disbursements</b>	<b>( 12,726)</b>	<b>( 9,600)</b>	<b>4,904</b>	<b>( 17,422)</b>
<b>Other financing receipts (disbursements):</b>				
Transfers-out	0	0	( 2,183)	( 2,183)
Other financing uses	( 25)	0	( 4,979)	( 5,004)
<b>Total other financing receipts (disbursements)</b>	<b>( 25)</b>	<b>0</b>	<b>( 7,162)</b>	<b>( 7,187)</b>
<b>Excess of cash receipts and other financing receipts over (under) cash disbursements and other financing disbursements</b>	<b>( 12,751)</b>	<b>( 9,600)</b>	<b>( 2,258)</b>	<b>( 24,609)</b>
<b>Fund cash balances, January 1, 2004</b>	<b>42,219</b>	<b>34,538</b>	<b>2,258</b>	<b>79,015</b>
<b>Fund cash balances, December 31, 2004</b>	<b>\$ 29,468</b>	<b>\$ 24,938</b>	<b>\$ 0</b>	<b>\$ 54,406</b>

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



**VILLAGE OF CHESTERVILLE**  
**MORROW COUNTY**  
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGE IN  
 FUND CASH BALANCES - PROPRIETARY FUND TYPE-  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<b>Proprietary Fund</b>
	<b>Enterprise</b>
<b>OPERATING CASH RECEIPTS:-</b>	
Charges for services	\$ 93,416
Total operating cash receipts	<b>93,416</b>
<b>OPERATING CASH DISBURSEMENTS:-</b>	
Personal services	15,609
Employee fringe benefits	614
Contractual services	42,584
Supplies and materials	8,694
Capital outlay	5,932
Total operating cash disbursements	<b>73,433</b>
Operating income	<b>19,983</b>
<b>NON-OPERATING CASH RECEIPTS:-</b>	
Intergovernmental revenue	11,473
Interest	170
Total non-operating cash receipts	<b>11,643</b>
<b>NON-OPERATING CASH DISBURSEMENTS:-</b>	
Interest and other fiscal charges	37,831
Other financing uses	7
Total non-operating cash disbursements before inter-fund transfers	<b>37,838</b>
Transfers-in	2,183
Net receipts over disbursements	<b>( 4,029)</b>
Fund cash balances, January 1, 2004	<b>30,792</b>
Fund cash balances, December 31, 2004	<b>\$ 26,763</b>

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

**VILLAGE OF CHESTERVILLE**  
**MORROW 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

	<b>GOVERNMENTAL FUND TYPES</b>			<b>Total Memorandum Only</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>	
<b>CASH RECEIPTS:-</b>				
Local taxes	\$ 12,736	\$ 3,040	\$ 0	\$ 15,776
Intergovernmental	16,764	4,576	242,538	263,878
Charges for services	1,780	0	0	1,780
Special assessments	1,873	0	295	2,168
Fines, licenses, and permits	1,582	0	0	1,582
Earnings on investments	547	50	0	597
Miscellaneous	62	0	0	62
<b>Total cash receipts</b>	<b>35,344</b>	<b>7,666</b>	<b>242,833</b>	<b>285,843</b>
<b>CASH DISBURSEMENTS:-</b>				
<b>Current:</b>				
Security of persons and property	5,147	0	0	5,147
Public health service	663	0	0	663
Leisure time activities	476	0	0	476
Community environment	500	0	0	500
Basic utility services	2,849	0	7,015	9,864
Transportation	1,362	10,151	0	11,513
General government	43,195	0	0	43,195
<b>Debt service:</b>				
Principal payment	4,140	0	850,000	854,140
Interest and fiscal charges	1,483	0	47,883	49,366
<b>Capital outlay</b>	<b>0</b>	<b>0</b>	<b>215,574</b>	<b>215,574</b>
<b>Total cash disbursements</b>	<b>59,815</b>	<b>10,151</b>	<b>1,120,472</b>	<b>1,190,438</b>
Total receipts over (under) cash disbursements	( 24,471)	( 2,485)	( 877,639)	( 904,595)
<b>Other financing receipts (disbursements):</b>				
Debt proceeds	0	0	850,000	850,000
Other financing uses	( 1,458)	0	0	( 1,458)
<b>Total other financing receipts (disbursements)</b>	<b>( 1,458)</b>	<b>0</b>	<b>850,000</b>	<b>848,542</b>
Excess of cash receipts and other financing receipts over (under) cash disbursements and other financing disbursements	( 25,929)	( 2,485)	( 27,639)	( 56,053)
Fund cash balances, January 1, 2003	68,148	37,023	29,897	135,068
Fund cash balances, December 31, 2003	\$ 42,219	\$ 34,538	\$ 2,258	\$ 79,015

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

**VILLAGE OF CHESTERVILLE**  
**MORROW COUNTY**  
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGE IN  
 FUND CASH BALANCES - PROPRIETARY FUND TYPE-  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<b>Proprietary Fund</b>
	<b>Enterprise</b>
<b>OPERATING CASH RECEIPTS:-</b>	
Charges for services	\$ 79,273
Total operating cash receipts	79,273
<b>OPERATING CASH DISBURSEMENTS:-</b>	
Personal services	8,996
Employee fringe benefits	346
Contractual services	32,406
Supplies and materials	6,339
Capital outlay	394
Total operating cash disbursements	48,481
Operating income	30,792
Net receipts over disbursements	30,792
Fund cash balances, January 1, 2003	0
Fund cash balances, December 31, 2003	\$ 30,792

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

**VILLAGE OF CHESTERVILLE**  
**MORROW COUNTY**  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

**NOTE 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 Chesterville, Morrow County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general government services, sewer utilities, security services, and fire protection services. The Village contracts with the Morrow County Sheriff's department to provide security of persons and property. The Village contracts with Big Walnut Joint Fire District to provide fire protection services.

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 of Ohio. This basis 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).

These statements adequately disclose material matters the Auditor of State of Ohio prescribes.

- C. **Cash and Investments** - The Village's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports gains or losses at the time of sale as receipts or disbursements, respectively.

Certificates of deposit 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:

**General Fund**

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

**Special Revenue Funds**

These funds 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:

*Street Construction, Maintenance and Repair Fund*

This fund receives gasoline tax, motor vehicle tax money for constructing, maintaining, and repairing Village streets.

**Capital Project Funds**

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project funds:

*Wastewater Treatment Plant*

This fund receives loan proceeds and grants for the purpose of constructing a wastewater treatment facility.

**VILLAGE OF CHESTERVILLE  
MORROW COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-** (continued)

Enterprise Funds

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

*Sewer Operating Fund*

This fund receives charges for services from residents to cover sewer service costs.

- E. Budgetary Process** - The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

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. Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

Estimated Resources

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

Encumbrances

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

A summary of 2004 and 2003 budgetary activity appears in Note 3.

- F. 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.

**NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS:-**

The Village 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>2004</u>	<u>2003</u>
Demand deposits	\$ 30,440	\$ 82,025
Certificates of deposit	28,034	27,782
Total deposits	<u>58,474</u>	<u>109,807</u>
Money market funds	22,695	0
Total deposits and investments	<u>\$ 81,169</u>	<u>\$ 109,807</u>

**Deposits** - The Village's deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

**VILLAGE OF CHESTERVILLE**  
**MORROW COUNTY**  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

**NOTE 3 - BUDGETARY ACTIVITY:-**

Budgetary activity for the year ending December 31, 2004 was as follows:

<b>2004 Budgeted VS. Actual Receipts</b>			
<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 37,250	\$ 36,506	\$ ( 744)
Special Revenue	1,215	8,997	7,782
Capital Projects	0	19,500	19,500
Enterprise	90,000	107,242	17,242
Total	<u>\$ 128,465</u>	<u>\$ 172,245</u>	<u>\$ 43,780</u>

<b>2004 Budgeted VS. Actual Budgetary Basis Expenditures</b>			
<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 80,260	\$ 49,257	\$ 31,003
Special Revenue	22,900	18,597	4,303
Capital Projects	0	21,758	( 21,758)
Enterprise	121,542	111,271	10,271
Total	<u>\$ 224,702</u>	<u>\$ 200,883</u>	<u>\$ 23,819</u>

Contrary to Ohio Law, budgetary expenditures exceeded the Village's appropriation authority as of December 31, 2004 for the Waste Water Treatment Plant fund by \$21,758.

Also contrary to Ohio Law, appropriations exceeded estimated resources in the General and Sewer Operating funds for the year ended December 31, 2004 by \$791 and \$750, respectively.

**VILLAGE OF CHESTERVILLE**  
**MORROW COUNTY**  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

**NOTE 3 - BUDGETARY ACTIVITY:-** (continued)

Budgetary activity for the year ending December 31, 2003 was as follows:

<b>2003 Budgeted VS. Actual Receipts</b>			
<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 50,170	\$ 35,344	\$ ( 14,826)
Special Revenue	0	7,666	7,666
Capital Projects	0	1,092,833	1,092,833
Enterprise	11,500	79,273	67,773
Total	<u>\$ 61,670</u>	<u>\$ 1,215,116</u>	<u>\$ 1,153,446</u>

<b>2003 Budgeted VS. Actual Budgetary Basis Expenditures</b>			
<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 81,646	\$ 61,273	\$ 20,373
Special Revenue	28,700	10,151	18,549
Capital Projects	0	1,120,472	( 1,120,472)
Enterprise	55,479	48,481	6,998
Total	<u>\$ 165,825</u>	<u>\$ 1,240,377</u>	<u>\$ ( 1,074,552)</u>

Contrary to Ohio Law, budgetary expenditures exceeded the Village's appropriation authority as of December 31, 2003 for the Waste Water Treatment Plant fund by \$1,120,472.

Also contrary to Ohio Law, appropriations exceeded estimated resources in the Sewer Operating fund for the year ended December 31, 2003 by \$43,979.

**VILLAGE OF CHESTERVILLE**  
**MORROW COUNTY**  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

**NOTE 4 - PROPERTY TAX:-**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

**NOTE 5 - DEBT:-**

Debt outstanding at December 31, 2004, was as follows:

	<b>Principal Balance <u>12/31/2004</u></b>	<b>Interest Rate</b>
USDA Rural Development	\$ 853,144	4.50%
Installment Loan	13,955	7.10%
Total	<u>\$ 867,099</u>	

The USDA Rural Development (USDA) loan relates to a wastewater plant expansion project that was mandated by the Ohio Environmental Protection Agency. The USDA loan proceeds were used to repay Ohio Water Development Authority (OWDA) debt outstanding as of December 31, 2002. The Village is to repay the loan over 40 years in annual payments of fixed principal and interest to be determined annually by USDA Rural Development. An approximate payment schedule is included below. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover USDA debt service requirements. The Village has opened three new accounts in a financial institution, as required by USDA Rural Development. The Village funds these accounts to accumulate reserves for operating and maintenance, emergency, and debt service purposes.

The Installment Loan is in connection with a purchase of Village property and was obtained in 1997. The loan is collateralized by the Village's taxing authority and is to be repaid in equal installments over a period of ten years with the final payment to be made in 2007.

Amortization of the debt above, including interest, is scheduled as follows for the years ending December 31:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2005	\$ 7,931	\$ 39,086	\$ 47,017
2006	15,137	38,736	53,873
2007	14,031	37,916	51,947
2008	10,000	37,350	47,350
2009	10,000	36,900	46,900
2010 - 2014	60,000	177,210	237,210
2015 - 2019	74,000	162,360	236,360
2020 - 2024	86,000	144,630	230,630
2025 - 2029	110,000	123,210	233,210
2030 - 2034	140,000	95,760	235,760
2035 - 2039	172,000	61,740	233,740
2040 - 2044	168,000	19,170	187,170
<b>Total</b>	<u>\$ 867,099</u>	<u>\$ 974,068</u>	<u>\$ 1,841,167</u>



**VILLAGE OF CHESTERVILLE**  
**MORROW COUNTY**  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

**NOTE 6 - RETIREMENT SYSTEMS:-**

The Village's full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, participants contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

**NOTE 7 - RISK POOL MANAGEMENT:-**

The Village is a member of the Public Entities Pool of Ohio ("PEP"). The following risks are covered by PEP:

- Property and general liability;
- Wrongful Acts
- Errors and omissions.

*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.

*Property Coverage*

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 up to \$500,000,000 per occurrence. 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 local governments.

*Financial Position*

PEP's financial statements (audited by other accountants) are represented to conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2004:

**Casualty Coverage**

Assets	\$ 30,547,049
Liabilities	( 16,989,918)
Retained Earnings	<u>\$ 13,557,131</u>

**Property Coverage**

Assets	\$ 3,652,970
Liabilities	( 544,771)
Retained Earnings	<u>\$ 3,108,199</u>



**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit Performed in Accordance with *Government Auditing Standards***

Village Council  
Village of Chesterville  
Morrow County

We have audited the accompanying financial statements of the Village of Chesterville, Morrow county, Ohio (the Village), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated November 21, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned function. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the Village's management dated November 21, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its' compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2004-001 to 2004-004. In a separate letter to the Village's management dated November 21, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intended this report solely for the information and use of the management and Village Council. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads 'Holbrook &amp; Manter' in a cursive script.

Certified Public Accountants

November 21, 2005

**VILLAGE OF CHESTERVILLE  
MORROW COUNTY  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2004 AND 2003**

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

<b>Finding Number</b>	<b>2004-001</b>
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**Noncompliance Citation - Certification of Expenditures**

Section 5705.41 (D), Ohio Revised Code, states that no subdivision shall make any contract or order any expenditure of money, unless a certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment 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 encumbrance. Furthermore, contracts and orders for expenditures lacking prior certification should be null and void, unless the Village Council obtains from the fiscal officer a certificate stating that there was at the time of the making of the contracts or orders a sufficient sum appropriated and free from previous encumbrance. The Council may authorize the issuance of a check in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid. If the amount involved is less than \$1,000 through April 7, 2003, and \$3,000 thereafter, the fiscal officer may authorize it to be paid without the affirmation of Council upon completion of a then and now certificate, if such expenditure is otherwise valid.

During our testing of expenditures, we noted instances of funds obligated without prior or any certification. A purchase order is required prior to the obligation date, which precedes the invoice date in many instances. Expenditures without prior certification could result in expenditures exceeding appropriations. We recommend that a purchase order be completed before Village funds are obligated. Alternatively, the Village might consider using “blanket” or “super blanket” certificates, allowed by the O.R.C. for expenditures meeting certain criteria.

<b>Finding Number</b>	<b>2004-002</b>
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**Noncompliance Citation – Budgetary Expenditures Exceeding Appropriations**

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

During our compliance testing procedures, we noted that the Village exceeded its appropriation authority as outlined on pages 11 and 12 in Note 3 of the financial statements.

<b>Finding Number</b>	<b>2004-003</b>
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**Noncompliance Citation – Appropriations Exceeding Estimated Resources**

Ohio Revised Code, Section 5705.39, states that the total appropriation from each fund should not exceed the total estimated revenue as certified by the county budget commission. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. The Village’s appropriations exceeded estimated resources as of December 31, 2004 and 2003 as outlined on page 11 and 12 in Note 3 of the financial statements.

We recommend the Village Council and Clerk periodically review the Village’s appropriations versus certified estimated resources to identify and investigate any variances and to help monitor legal compliance. The Village officials should ensure that the Village has properly prepared and submitted all required budgetary documents to the county auditor. Also, each time appropriations are adopted or amended the Village should ensure the certificate of the County Auditor is received indicating appropriations do not exceed certified resources.

**VILLAGE OF CHESTERVILLE  
MORROW COUNTY  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2004 AND 2003**

**FINDING RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

<b>Finding Number</b>	<b>2004-004</b>
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**Noncompliance Citation – Maintaining Complete Accounting Records in UAN**

Ohio Administrative Code, Section 117-2-02, requires that all local public offices maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record, and report its transactions. The management of each local public office is responsible for the assertions underlying the information in the public office's financial statements among them being completeness, which requires that all account balances and transactions that should be included in the financial records are included. In addition, Ohio Revised 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. We noted the following discrepancies with the Township accounting records:

During 2004, the Village opened two money market accounts and one savings account, as part of the financing agreement with United States Department of Agriculture's Rural Development (USDA). The Village was directed to transfer funds into these accounts for the purposes of accumulating reserves for debt repayment, operations and maintenance, and emergencies. In following USDA's requirements, the Village did not include the three accounts in the UAN accounting system, which resulted in an overstatement of revenues and expenditures and understatement of cash balances as of December 31, 2004. Throughout the year, as funds were transferred back and forth among these accounts and the main checking account of the Village, these transfers were accounted for as revenues and expenditures. The Village has accepted adjustments for these amounts, which are reflected in the financial statements.

We recommend that the Village contact the Auditor of State's Office and seek assistance in adjusting the UAN accounting system's balances and accounts.

**VILLAGE OF CHESTERVILLE**  
**MORROW COUNTY**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	Ohio Rev. Code Section 5705.41(D) - <b>prior certification.</b>	No	Reported as finding 2004-001.





**Auditor of State  
Betty Montgomery**

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800-282-0370

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**VILLAGE OF CHESTERVILLE**

**MORROW 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  
FEBRUARY 9, 2006**