



**Auditor of State
Betty Montgomery**

**CHESTER TOWNSHIP
GEAUGA COUNTY**

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**Auditor of State
Betty Montgomery**

Chester Township
Geauga County
12701 Chillicothe Road
Chesterland, Ohio 44026

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While 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. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Betty Montgomery
Auditor of State

June 1, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Chester Township
Geauga County
12701 Chillicothe Road
Chesterland, Ohio 44026

To the Board of Trustees:

We have audited the accompanying financial statements of Chester Township, Geauga County (the Township) as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

Revisions to GAAP would require the Township 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 Township 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 permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements. Since this Township 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 permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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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 Township as of December 31, 2004, or its change 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 and reserves for encumbrances of Chester Township, Geauga County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the year ended December 31, 2004. The Township 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 June 1, 2005, on our consideration of the Township'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.



Betty Montgomery
Auditor of State

June 1, 2005

**CHESTER TOWNSHIP
GEAUGA 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**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$211,053	\$3,436,742		\$3,647,795
Intergovernmental	391,263	358,119		749,382
Special Assessments		72,047		72,047
Licenses, Permits, and Fees	60,612	4,930		65,542
Fines, Forfeitures, and Penalties	29,444			29,444
Earnings on Investments	11,865			11,865
Other Revenue	528,304	121,192		649,496
	<u>1,232,541</u>	<u>3,993,030</u>		<u>5,225,571</u>
Total Cash Receipts				
	<u>1,232,541</u>	<u>3,993,030</u>		<u>5,225,571</u>
Cash Disbursements:				
Current:				
General Government	855,816	2,307,825		3,163,641
Public Works	21,807	1,431,948	\$339,000	1,792,755
Health	310			310
Conservation - Recreation	3,069			3,069
Debt Service:				
Redemption of Principal		180,838		180,838
Capital Outlay	87,329	199,729		287,058
	<u>968,331</u>	<u>4,120,340</u>	<u>339,000</u>	<u>5,427,671</u>
Total Cash Disbursements				
	<u>968,331</u>	<u>4,120,340</u>	<u>339,000</u>	<u>5,427,671</u>
Total Receipts Over/(Under) Disbursements	<u>264,210</u>	<u>(127,310)</u>	<u>(339,000)</u>	<u>(202,100)</u>
Other Financing Receipts:				
Reduction of prior year receipt		(2,783)		(2,783)
Proceeds from Sale of Public Debt:				
Sale of Bonds		255,000		255,000
Other Debt Proceeds	77,400	197,722		275,122
	<u>77,400</u>	<u>449,939</u>		<u>530,122</u>
Total Other Financing Receipts				
	<u>77,400</u>	<u>449,939</u>		<u>530,122</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>341,610</u>	<u>322,629</u>	<u>(339,000)</u>	<u>328,022</u>
Fund Cash Balances, January 1	<u>170,129</u>	<u>562,683</u>	<u>339,000</u>	<u>1,071,812</u>
Fund Cash Balances, December 31	<u><u>\$511,739</u></u>	<u><u>\$885,312</u></u>	<u><u>\$0</u></u>	<u><u>\$1,399,834</u></u>
Reserve for Encumbrances, December 31	<u><u>\$17,622</u></u>	<u><u>\$99,069</u></u>	<u><u>\$0</u></u>	<u><u>\$116,691</u></u>

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

**CHESTER TOWNSHIP
GEAUGA COUNTY**

**STATEMENT OF CASH RECEIPTS AND CHANGES IN FUND
CASH BALANCE - NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Nonexpendable Trust</u>
Operating Cash Receipts:	
Earnings on Investments	<u>\$9</u>
Total Operating Cash Receipts	<u>9</u>
Fund Cash Balances, January 1	<u>662</u>
Fund Cash Balances, December 31	<u><u>\$671</u></u>

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

**CHESTER TOWNSHIP
GEAUGA 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**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$284,746	\$3,314,408		\$3,599,154
Intergovernmental	321,989	503,026		825,015
Special Assessments		63,013		63,013
Licenses, Permits, and Fees	21,866			21,866
Fines, Forfeitures, and Penalties	18,239	2,940		21,179
Earnings on Investments	981			981
Gifts		3,539		3,539
Other Revenue	111,263	104,176		215,439
	<u>759,084</u>	<u>3,991,102</u>		<u>4,750,186</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
General Government	522,591	1,200		523,791
Public Safety		2,298,350		2,298,350
Public Works	23,817	910,358		934,175
Health	4,258	5,456		9,714
Human Services	2,857			2,857
Miscellaneous		48,802		48,802
Debt Service:				
Principal and Interest Charges		71,692		71,692
Capital Outlay	291,598	94,511		386,109
	<u>845,121</u>	<u>3,430,369</u>		<u>4,275,490</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>(86,037)</u>	<u>560,733</u>		<u>474,696</u>
Other Financing Receipts:				
Proceeds from Sale of Public Debt:				
Sale of Notes	215,000		\$339,000	554,000
Other Financing Sources	10,114	1,950		12,064
	<u>225,114</u>	<u>1,950</u>	<u>339,000</u>	<u>566,064</u>
Total Other Financing Receipts				
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	139,077	562,683	339,000	1,040,760
Fund Cash Balances, January 1	31,052			31,052
Fund Cash Balances, December 31	<u>\$170,129</u>	<u>\$562,683</u>	<u>\$339,000</u>	<u>\$1,071,812</u>
Reserve for Encumbrances, December 31	<u>\$3,955</u>	<u>\$41,213</u>	<u>\$309,582</u>	<u>\$354,750</u>

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

CHESTER TOWNSHIP
GEAUGA COUNTY

STATEMENT OF FUND CASH BALANCE
NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Nonexpendable Trust</u>
Fund Cash Balances, January 1	<u>662</u>
Fund Cash Balances, December 31	<u><u>\$662</u></u>

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

**CHESTER TOWNSHIP
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

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 Chester Township, Geauga County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, and police protection. The Township contracts with Chesterland Volunteer Fire Department, incorporated to provide fire services, and Chesterland Fire Rescue to provide ambulance services.

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

B. Basis of Accounting

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

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

C. Cash and Investments

The Key Bank sweep account is valued at cost. STAR Ohio (The State Treasurer's investment pool) is recorded at share values the mutual funds report.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

Road and Bridge Fund - This fund receives property tax money for constructing, maintaining, and repairing Township roads and bridges.

**CHESTER TOWNSHIP
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Police and Fire Department Funds - These funds receive property tax money to provide police and fire protection to the Township residents.

3. Capital Project Funds

This fund accounts for receipts restricted to acquiring or constructing major capital projects.

4. Fiduciary Fund (Non-expendable Trust Fund)

This fund accounts for resources restricted by a legally binding trust agreement. The Township had the following significant fiduciary fund:

Bequest Fund – This is a cemetery bequest fund to be used to maintain certain grave sites in the Township cemetery.

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 Board of Trustees 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.

2. 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.

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual 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 Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**CHESTER TOWNSHIP
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2004	2003
Demand deposits	\$316,998	\$1,041,198
Total deposits	316,998	1,041,198
STAR Ohio	31,676	31,276
Key Bank Sweep Account	1,049,048	
Total investments	1,080,724	31,276
Total deposits and investments	\$1,397,722	\$1,072,474

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form. The Sweep Account is used to invest in Repurchase Agreements and the Township's financial institution transfers securities to the Township's agent to collateralize repurchase agreements. The securities are not in the Township's name.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$953,323	\$1,309,941	\$356,618
Special Revenue	4,400,427	4,445,752	45,325
Non-expendable trust	25	9	(16)
Total	\$5,353,775	\$5,755,702	\$401,927

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,109,254	\$985,953	\$123,301
Special Revenue	4,465,797	4,222,192	243,605
Capital Projects	339,000	339,000	0
Non-expendable trust	662	662	662
Total	\$5,914,713	\$5,547,145	\$367,568

**CHESTER TOWNSHIP
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY – (Continued)

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$974,380	\$984,198	\$9,818
Special Revenue	4,038,061	3,993,052	(45,009)
Capital Projects		339,000	339,000
Non-expendable trust	662		(662)
Total	\$5,013,103	\$5,316,250	\$303,147

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$951,272	\$849,076	\$102,196
Special Revenue	3,912,341	3,471,582	440,759
Capital Projects		309,582	(309,582)
Non-expendable trust	662		662
Total	\$4,864,275	\$4,630,240	\$234,035

Contrary to Ohio Revised Code 5705.41(D), purchases were not properly encumbered. See noncompliance finding 2004-001.

Contrary to Ohio Revised Code 5705.41(B), expenditures exceeded appropriations in the Cedar Road Capital Project Fund in 2003. See noncompliance finding 2004-002.

4. PROPERTY TAX

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

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 Township.

**CHESTER TOWNSHIP
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

5. DEBT

Debt outstanding at December 31, 2004 was as follows:

	Principal	Interest Rate
Caves and Sperry Road Project	\$22,407	6.15%
Sherman Road	\$41,893	various
1999 Various Road Project	\$54,157	5.63%
Sperry Road Project	\$93,946	various
Cedar Road Bonds	255,000	various
Total	\$467,403	

The Township purchased a note for the Salamone property in 2003, and issued a temporary Cedar Road Note in 2003, and Cedar Road Bonds in 2004.

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

	Caves and Sperry	Sherman Road	1999 Various Road Project	Sperry Road Project	Cedar Road Bonds	Total
Year ending December 31:						
2005	\$23,076	\$11,952	\$10,884	\$16,501	29,439	91,852
2006		11,952	10,884	16,501	32,808	72,145
2007		11,952	10,884	16,501	32,232	71,569
2008		11,952	10,884	16,501	31,583	70,920
2009			10,884	16,501	30,857	58,242
2010-2014			10,884	33,002	151,143	195,029
Total	\$23,076	\$47,808	\$65,304	\$115,507	\$308,062	\$559,757

6. RETIREMENT SYSTEMS

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

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

**CHESTER TOWNSHIP
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

7. RISK MANAGEMENT

Risk Pool Membership

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. OTARMA provides property and casualty coverage for its members.

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

Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. OTARMA 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 OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

OTARMA 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, OTARMA 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 OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective township.

Financial Position

OTARMA'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 (the latest information available):

**CHESTER TOWNSHIP
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

7. RISK MANAGEMENT

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$27,792,223	\$23,757,036
Liabilities	<u>(11,791,300)</u>	<u>(9,197,512)</u>
Retained earnings	<u>\$16,000,923</u>	<u>\$14,559,524</u>
<u>Property Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$6,791,060	\$6,596,996
Liabilities	<u>(750,956)</u>	<u>(1,204,326)</u>
Retained earnings	<u>\$6,040,104</u>	<u>\$5,392,670</u>

8. THEFT IN OFFICE

Michael Spellman, former Clerk, was convicted of Theft in Office, Tampering with Records, Unauthorized Use of a Computer, Forgery, relating to the theft of the Township's funds from 1996 to 2003, Obstruction of Justice and Receiving Stolen Property. He was sentenced to ten years in prison, payment of court costs and restitution to Chester Township in the sum of Four Million Two Hundred Eighty-Six Thousand Eight Hundred Ninety- Three Dollars (\$4,286,893). The Township was unable to provide us with any financial statements reflecting the Townships transactions for the 2002 audit period. The Township was also unable to provide any documentation to support the Townships cash receipts and disbursements and reserves for encumbrances for the year ended December 30, 2002. As a result, we were unable to satisfy ourselves as to the total revenues, expenditures and fund cash balances as of December 30, 2002. Since the Township was unable to provide the evidence described the scope of our auditing procedures was not sufficient to enable us to express, and we do not express, an opinion on the 2002 financial statements. Because we were not able to express an opinion on the 2002 financial statements the Trustees passed a resolution accepting the 2003 beginning fund balances, and we audited 2003 and 2004 by accepting these beginning balances.

Joan Spellman, mother of Michael Spellman, was convicted of Obstructing Justice, Medicaid Fraud and Receiving Stolen Property in relation to the crimes committed against the Township by her son, the former Clerk, Michael Spellman. She was sentenced to 5 years of community control sanctions of which 30 days was to be served under residential community control and the remainder to be served as non-residential community control. The court also ordered Ms. Spellman to pay court costs, payment of supervision fee and restitution to Chester Township in the sum of Four Hundred Ninety-five Thousand Dollars and no/100 (\$495,000).

On August 14, 2004, the Township auctioned off the assets of Michael and Joan Spellman which the court ordered to apply toward their restitution to the Township. The Township received \$320,609 from the auction.

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**Auditor of State
Betty Montgomery**

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

Chester Township
Geauga County
12701 Chillicothe Road
Chesterland, Ohio 44026

To the Board of Trustees:

We have audited the financial statements of the Chester Township (the Township) as of and for the years ended December 31, 2004 and 2003 and have issued our report thereon dated June 1, 2005, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. Government Auditing Standards considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 Township'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 functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Township's management dated June 1, 2005, we reported other matters involving internal control over financial reporting we did not deem as reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Township'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.

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Chester Township
Geauga County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

The results of our tests disclosed instances of noncompliance we must report under *Government Auditing Standards* which are described in the accompany schedule of findings as items 2004-001 and 2004-002. In a separate letter to the Township's management dated June 1, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, Board of Trustees It is not intended for 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

June 1, 2005

**CHESTER TOWNSHIP
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2004-001
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Ohio Rev. Code Section 5705.41 (D), states no orders or contracts involving the expenditure of money are to be made unless a certificate signed by the fiscal officer is attached. The fiscal officer must certify 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.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D).

1. Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made "then" at the time that he is completing his certification "now", 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 can authorize the drawing of a warrant for the payment of the amount due. 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 \$3,000 (\$1,000 prior to 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.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Township did not always encumber funds at the time of the commitment. We noted approximately 5% of the expenditures tested were not properly encumbered in 2004, and 27% in 2003. Incurring obligations prior to the fiscal officer's certification could result in the Township spending more than appropriated.

**CHESTER TOWNSHIP
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2004-001 (Continued)
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Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Township certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Finding Number	2004-02
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Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The Township spent more than appropriations in the following fund in fiscal-year 2003:

Fund number (name, fund type)	Appropriation Authority (Current appropriations plus carryover encumbrances)	Budgetary Expenditures (Expenditures plus encumbrances)	Variance
4401(Capital Projects-Cedar Road)	\$0	\$309,582	\$309,582

The 2003 violation occurred because of an audit adjustment which added the \$309,582 to the reserve for encumbrance line item.

We recommend the Township closely monitors budget v. actual figures.



**Auditor of State
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CHESTER TOWNSHIP

GEAUGA 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
AUGUST 4, 2005**