



Mary Taylor, CPA  
Auditor of State



**GRATIS TOWNSHIP  
PREBLE COUNTY**

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# Mary Taylor, CPA

Auditor of State

Gratis Township  
Preble County  
P.O. Box 24  
West Elkton, Ohio 45070

To the Township 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 an 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 cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

September 11, 2007

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Gratis Township  
Preble County  
P.O. Box 24  
West Elkton, Ohio 45070

To the Township Board of Trustees:

We have audited the accompanying financial statements of Gratis Township, Preble County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005. 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.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. 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 townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. 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.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 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, 2006 and 2005, or its changes in financial position for the years 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 Gratis Township, Preble County, Ohio as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 September 11, 2007, 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.



**Mary Taylor, CPA**  
Auditor of State

September 11, 2007



**GRATIS TOWNSHIP  
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

|   | <u>General</u>         | <u>Special<br/>Revenue</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|---|------------------------|----------------------------|---|
| <b>Cash Receipts:</b>                     |                        |                            |   |
| Local Taxes                               | \$26,433               | \$262,071                  | \$288,504                               |
| Intergovernmental                         | 19,481                 | 127,861                    | 147,342                                 |
| Charges for Services                      |                        | 66,226                     | 66,226                                  |
| Licenses, Permits, and Fees               |                        | 37,120                     | 37,120                                  |
| Earnings on Investments                   | 1,111                  | 565                        | 1,676                                   |
| Other Revenue                             | 7,806                  | 16,101                     | 23,907                                  |
|   | <u>54,831</u>          | <u>509,944</u>             | <u>564,775</u>                          |
| <b>Cash Disbursements:</b>                |                        |                            |   |
| Current:                                  |                        |                            |   |
| General Government                        | 37,510                 | 170,817                    | 208,327                                 |
| Public Safety                             |                        | 66,226                     | 66,226                                  |
| Public Works                              |                        | 152,639                    | 152,639                                 |
| Health                                    | 11,752                 | 56,512                     | 68,264                                  |
| Debt Service:                             |                        |                            |   |
| Redemption of Principal                   | 1,996                  | 14,297                     | 16,293                                  |
| Interest and Fiscal Charges               | 409                    | 2,413                      | 2,822                                   |
| Capital Outlay                            | 3,890                  | 15,614                     | 19,504                                  |
|   | <u>55,557</u>          | <u>478,518</u>             | <u>534,075</u>                          |
| Total Receipts Over/(Under) Disbursements | <u>(726)</u>           | <u>31,426</u>              | <u>30,700</u>                           |
| Fund Cash Balances, January 1             | <u>24,043</u>          | <u>101,537</u>             | <u>125,580</u>                          |
| <b>Fund Cash Balances, December 31</b>    | <b><u>\$23,317</u></b> | <b><u>\$132,963</u></b>    | <b><u>\$156,280</u></b>                 |
| Reserve for Encumbrances, December 31     | <u>\$489</u>           | <u>\$1,517</u>             | <u>\$2,006</u>                          |

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

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCE - PRIVATE PURPOSE TRUST  
FOR THE YEAR ENDED DECEMBER 31, 2006**

|  | <u>Private Purpose<br/>Trust</u> |
|--|----------------------------------|
| <b>Non-Operating Cash Receipts:</b>      |                                  |
| Earnings on Investments                  | <u>\$179</u>                     |
| Total Non-Operating Cash Receipts        | <u>179</u>                       |
| <b>Non-Operating Cash Disbursements:</b> |                                  |
| Other Non-Operating Cash Disbursements   | <u>100</u>                       |
| Total Non-Operating Cash Disbursements   | <u>100</u>                       |
| Excess of Receipts Over Disbursements    | 79                               |
| Fund Cash Balances, January 1            | <u>4,540</u>                     |
| <b>Fund Cash Balances, December 31</b>   | <b><u><u>\$4,619</u></u></b>     |

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

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|  | <u>General</u>                | <u>Special<br/>Revenue</u>     | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|--|-------------------------------|--------------------------------|---|
| <b>Cash Receipts:</b>                  |                               |                                |   |
| Local Taxes                            | \$23,796                      | \$254,923                      | \$278,719                               |
| Intergovernmental                      | 24,719                        | 122,096                        | 146,815                                 |
| Charges for Services                   |                               | 70,107                         | 70,107                                  |
| Licenses, Permits, and Fees            |                               | 29,179                         | 29,179                                  |
| Earnings on Investments                | 727                           | 156                            | 883                                     |
| Other Revenue                          | 11,416                        | 30,139                         | 41,555                                  |
|  | <u>60,658</u>                 | <u>506,600</u>                 | <u>567,258</u>                          |
| <b>Total Cash Receipts</b>             |                               |                                |   |
| <b>Cash Disbursements:</b>             |                               |                                |   |
| Current:                               |                               |                                |   |
| General Government                     | 36,294                        | 218,224                        | 254,518                                 |
| Public Safety                          |                               | 19,290                         | 19,290                                  |
| Public Works                           |                               | 149,802                        | 149,802                                 |
| Health                                 | 11,053                        | 61,044                         | 72,097                                  |
| Debt Service:                          |                               |                                |   |
| Redemption of Principal                |                               | 15,893                         | 15,893                                  |
| Interest and Fiscal Charges            |                               | 3,555                          | 3,555                                   |
| Capital Outlay                         |                               | 175                            | 175                                     |
|  | <u>47,347</u>                 | <u>467,983</u>                 | <u>515,330</u>                          |
| <b>Total Cash Disbursements</b>        |                               |                                |   |
| Total Receipts Over Disbursements      | <u>13,311</u>                 | <u>38,617</u>                  | <u>51,928</u>                           |
| Fund Cash Balances, January 1          | <u>10,732</u>                 | <u>62,920</u>                  | <u>73,652</u>                           |
| <b>Fund Cash Balances, December 31</b> | <b><u><u>\$24,043</u></u></b> | <b><u><u>\$101,537</u></u></b> | <b><u><u>\$125,580</u></u></b>          |

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

GRATIS TOWNSHIP  
PREBLE COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCE - PRIVATE PURPOSE TRUST  
FOR THE YEAR ENDED DECEMBER 31, 2005

|  | <u>Private Purpose<br/>Trust</u> |
|--|----------------------------------|
| <b>Non-Operating Cash Receipts:</b>      |                                  |
| Earnings on Investments                  | <u>\$106</u>                     |
| Total Non-Operating Cash Receipts        | <u>106</u>                       |
| <b>Non-Operating Cash Disbursements:</b> |                                  |
| Other Non-Operating Cash Disbursements   | <u>80</u>                        |
| Total Non-Operating Cash Disbursements   | <u>80</u>                        |
| Excess of Receipts Over Disbursements    | 26                               |
| Fund Cash Balances, January 1            | <u>4,514</u>                     |
| <b>Fund Cash Balances, December 31</b>   | <b><u><u>\$4,540</u></u></b>     |

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

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**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 Gratis Township, Preble County, Ohio (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, and cemetery maintenance. The Township contracts with the Village of Gratis to provide fire and ambulance services.

The Township participates in the Ohio Township Association Risk Management Authority public entity risk pool. Note 7 to the financial statements provides additional information for this entity.

Public Entity Risk Pool:

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

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

**B. Accounting Basis**

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. 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 Deposits**

The Township values certificates of deposit at cost.

**D. Fund Accounting**

The Township uses fund accounting to segregate cash and deposits 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.

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**2. Special Revenue Funds**

These funds account for proceeds from specific sources (other than from private-purpose 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.

Gasoline Tax Fund - This fund receives gasoline tax money to pay for constructing, maintaining, and repairing Township roads.

EMS Fund – This fund receives property tax money to pay for emergency medical services for Township residents.

**3. Private Purpose Trust Fund**

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

The Township's private purpose trust fund is a cemetery bequest fund from which interest earned is used for care of specific grave sites.

**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 object 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.

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2006 and 2005 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.

**2. Equity in Pooled Cash and Deposits**

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

|                         | 2006      | 2005      |
|-------------------------|-----------|-----------|
| Demand deposits         | \$156,499 | \$125,720 |
| Certificates of deposit | 4,400     | 4,400     |
| Total deposits          | \$160,899 | \$130,120 |

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

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

| 2006 Budgeted vs. Actual Receipts |                      |                    |          |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance |
| General                           | \$46,917             | \$54,831           | \$7,914  |
| Special Revenue                   | 473,633              | 509,944            | 36,311   |
| Trust                             | 0                    | 179                | 179      |
| Total                             | \$520,550            | \$564,954          | \$44,404 |

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**3. Budgetary Activity (Continued)**

| 2006 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |           |
|---|----------------------------|---------------------------|-----------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance  |
| General   | \$70,960                   | \$56,046                  | \$14,914  |
| Special Revenue                                       | 575,172                    | 480,035                   | 95,137    |
| Trust   | 140                        | 100                       | 40        |
| Total   | \$646,272                  | \$536,181                 | \$110,091 |

| 2005 Budgeted vs. Actual Receipts |                      |                    |          |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance |
| General                           | \$45,550             | \$60,658           | \$15,108 |
| Special Revenue                   | 464,876              | 506,600            | 41,724   |
| Trust                             | 0                    | 106                | 106      |
| Total                             | \$510,426            | \$567,364          | \$56,938 |

| 2005 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |          |
|---|----------------------------|---------------------------|----------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance |
| General   | \$56,282                   | \$47,347                  | \$8,935  |
| Special Revenue                                       | 527,909                    | 467,983                   | 59,926   |
| Trust   | 114                        | 80                        | 34       |
| Total   | \$584,305                  | \$515,410                 | \$68,895 |

**4. Property Tax**

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

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

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.



**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**5. Debt**

Debt outstanding at December 31, 2006 was as follows:

|                 | Principal | Interest Rate |
|-----------------|-----------|---------------|
| Dump Truck Loan | \$14,662  | 4.50%         |
| Backhoe Lease   | 29,563    | 4.75%         |
| Total           | \$44,225  |               |

The Township refinanced a dump truck commercial loan obtained in 2002. The loan will be repaid in annual payments of \$7,325 plus interest. The loan is secured by the dump truck.

The Backhoe Lease is for the lease/purchase of a Case Backhoe. The lease was entered into on May 11, 2004. The original lease/purchase amount was \$54,025 and is being repaid in annual installments of \$10,805. The Township will have an option at the end of 5 years to purchase the backhoe for \$1.

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

|                          | Dump Truck<br>Loan | Backhoe<br>Lease |
|--------------------------|--------------------|------------------|
| Year ending December 31: |                    |                  |
| 2007                     | \$7,985            | \$10,805         |
| 2008                     | 7,667              | 10,805           |
| 2009                     |                    | 10,805           |
| Total                    | \$15,652           | \$32,415         |

**6. Retirement Systems**

The Township's 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 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Township contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. Risk Management**

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. 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

For an occurrence prior to January 1, 2006 OTARMA retains casualty risks up to \$250,000 per occurrence, including claim 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 \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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 government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. Risk Management (Continued)**

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, 2006 and 2005:

| <u>Casualty Coverage</u> | <u>2006</u>         | <u>2005</u>         |
|--------------------------|---------------------|---------------------|
| Assets                   | \$32,031,312        | \$30,485,638        |
| Liabilities              | (11,443,952)        | (12,344,576)        |
| Retained earnings        | <u>\$20,587,360</u> | <u>\$18,141,062</u> |

| <u>Property Coverage</u> | <u>2006</u>        | <u>2005</u>        |
|--------------------------|--------------------|--------------------|
| Assets                   | \$10,010,963       | \$9,177,796        |
| Liabilities              | (676,709)          | (1,406,031)        |
| Retained earnings        | <u>\$9,334,254</u> | <u>\$7,771,765</u> |

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$10,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

| <b><u>Contributions to OTARMA</u></b> |         |
|---------------------------------------|---------|
| 2004                                  | \$6,468 |
| 2005                                  | \$6,042 |
| 2006                                  | \$5,083 |

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. Risk Management (Continued)**

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they give written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.



# Mary Taylor, CPA

## Auditor of State

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

Gratis Township  
Preble County  
P.O. Box 24  
West Elkton, Ohio 45070

To the Township Board of Trustees:

We have audited the financial statements of Gratis Township, Preble County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated September 11, 2007, wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted 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. 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 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2006-002 is also a material weakness.

We also noted a certain internal control matters that we reported to the Township's management in a separate letter dated September 11, 2007.

#### **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. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated September 11, 2007.

We intend this report solely for the information and use of the audit committee, management, and Township Board of Trustees. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

September 11, 2007

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005**

|  |
|--|
| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|--|

**FINDING NUMBER 2006-001**

**Material Noncompliance/Significant Deficiency**

**Ohio Rev. Code, § 5705.41(D)(1)**, prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41 (D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

- A. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) maybe paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

- B. 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.
- C. 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.

For 2005, 38 percent of the transactions tested were not properly certified at the time the commitment was incurred; for 2006, 25 percent of the transactions tested were not properly certified at the time the commitment was incurred. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2006-001  
(Continued)**

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 2006-002**

**Significant Deficiency - Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that all transactions are properly authorized in accordance with management's policies, ensuring that accounting records are properly designed, and verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The Township lacked management oversight in the posting of receipts and expenditures of the Township. This lack of oversight is illustrated by the following:

- The Township received monies from the Village of Gratis for EMS contract revenue. In 2006, the Township received \$66,227 from the Village of Gratis. These receipts were posted to Licenses, Permits, and Fees rather than Charges for Services. In 2005, the Township received \$70,107 in EMS contract revenue from the Village of Gratis. Of this amount, \$50,817 was posted to Miscellaneous Revenue and \$19,290 was posted to Licenses, Permits, and Fees instead of Charges for Services.
- The Township made debt payments on its dump truck and backhoe during the audit period. In 2006, the Township posted the payment on the dump truck to Public Works in the amount of \$8,310 instead of principal and interest. Also, the Township recorded the payment on the backhoe in the amount of \$10,805 to Capital Outlay instead of principal and interest. In 2005, the Township recorded the payments on the dump truck and backhoe totaling \$19,448 to Public Works and Health instead of principal and interest.

Audit adjustments were made to the accompanying financial statements for the above items.

The lack of proper management oversight could result in material misstatement of EMS revenue and debt service payments. We recommend that the Township use due care in posting EMS contract revenue and debt service-principal and debt service-interest expenditures to the Township's books.



**FINDING NUMBER 2006-003**

**Significant Deficiency**

When designing the public office's system of internal and specific control activities, management should consider ensuring that all transactions are properly authorized in accordance with management's policies, ensuring that accounting records are properly designed, and verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The Township lacked management oversight in the fiscal operations of the Township. This lack of oversight is illustrated by the following:

The Township failed to properly follow the guidance as issued in AOS Audit Bulletin 2005-005. Per the guidance issued in the bulletin, non-expendable trust funds should be reclassified to either permanent fund or private purpose trust funds. The Township has a Cemetery Bequest Fund (non-expendable trust fund type). The Township incorrectly reclassified this fund to the Cemetery Fund (special revenue fund type).

The following activity should be reclassified from the Cemetery Fund (special revenue fund type) to the Private Purpose Trust Fund. Audit adjustments were made to the accompanying financial statements.

|                        | <u>2005</u>    | <u>2006</u>    |
|------------------------|----------------|----------------|
| Beginning Fund Balance | \$4,514        | \$4,540        |
| Receipts               | 106            | 179            |
| Expenditures           | <u>80</u>      | <u>100</u>     |
| Ending Fund Balance    | <u>\$4,540</u> | <u>\$4,619</u> |

The lack of proper management oversight could result in material misstatement of the financial statements. To improve recordkeeping and accountability, we recommend that the Township follow the guidance as issued in AOS Audit Bulletin 2005-005 for reclassifying nonexpendable trust funds.

**Officials' Response:**

We did not receive a response from Officials to these findings.

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**GRATIS TOWNSHIP  
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006 AND 2005**

| Finding Number | Finding Summary   | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b> |
|----------------|---|------------------|--|
| 2004-001       | Ohio Rev. Code Section 5705.41(D), failure to certify purchases.                                  | No               | Not corrected. Reissued as Finding 2006-001  |
| 2004-002       | Ohio Rev. Code Section 5705.36, failure to obtain an Official Certificate of Estimated Resources. | Yes              |  |





**Mary Taylor, CPA**  
Auditor of State

**GRATIS TOWNSHIP**

**PREBLE 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  
OCTOBER 9, 2007**