



Mary Taylor, CPA
Auditor of State

**PAINT TOWNSHIP
HIGHLAND COUNTY**

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Mary Taylor, CPA
Auditor of State

Paint Township
Highland County
13149 Barrett Mill Rd
Bainbridge, Ohio 45612

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 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 adverse 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 7, 2009

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Paint Township
Highland County
13149 Barrett Mill Rd
Bainbridge, OH 45612

To the Board of Trustees:

We have audited the financial statements of Paint Township, Highland County, Ohio (the Township), as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated December 7, 2009 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. 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. 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 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, 2008 and 2007 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, 2008 and 2007, 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 of Paint Township, Highland County, Ohio, as of December 31, 2008 and 2007, 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 December 7, 2009, 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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 7, 2009

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property and Other Local Taxes	\$59,416	\$126,154	\$0	\$185,570
Charges for Services	9,828			9,828
Intergovernmental	58,597	143,364		201,961
Earnings on Investments	47	359	785	1,191
Miscellaneous	167	2,225		2,392
	<u>128,055</u>	<u>272,102</u>	<u>785</u>	<u>400,942</u>
Cash Disbursements:				
Current:				
General Government	74,622			74,622
Public Safety		59,688		59,688
Public Works		229,780		229,780
Health	18,611			18,611
Purchased Services			810	810
Capital Outlay	55,000			55,000
Debt Service:				
Redemption of Principal		4,401		4,401
Interest and Other Fiscal Charges		1,426		1,426
	<u>148,233</u>	<u>295,295</u>	<u>810</u>	<u>444,338</u>
Total Cash Disbursements	<u>148,233</u>	<u>295,295</u>	<u>810</u>	<u>444,338</u>
Total Receipts (Under) Disbursements	<u>(20,178)</u>	<u>(23,193)</u>	<u>(25)</u>	<u>(43,396)</u>
Other Financing (Disbursements):				
Transfers-In		2,000		2,000
Transfers-Out	(2,000)			(2,000)
	<u>(2,000)</u>	<u>2,000</u>	<u>0</u>	<u>0</u>
Total Other Financing Receipts / (Disbursements)	<u>(2,000)</u>	<u>2,000</u>	<u>0</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements	(22,178)	(21,193)	(25)	(43,396)
Fund Cash Balances, January 1	111,574	66,389	19,131	197,094
Fund Cash Balances, December 31	<u>\$89,396</u>	<u>\$45,196</u>	<u>\$19,106</u>	<u>\$153,698</u>

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

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General	Special Revenue	Permanent	Totals (Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$60,244	\$129,178	\$0	\$189,422
Charges for Services	9,202			9,202
Licenses, Permits, and Fees			849	849
Intergovernmental	154,574	145,757		300,331
Earnings on Investments	2,850			2,850
Miscellaneous	651	3,053		3,704
Total Cash Receipts	227,521	277,988	849	506,358
Cash Disbursements:				
Current:				
General Government	71,240			71,240
Public Safety		59,079		59,079
Public Works		248,583		248,583
Health	22,383			22,383
Salaries			1,250	1,250
Capital Outlay	186,144	25,000		211,144
Total Cash Disbursements	279,767	332,662	1,250	613,679
Total Receipts (Under) Disbursements	(52,246)	(54,674)	(401)	(107,321)
Other Financing Receipts:				
Other Debt Proceeds		25,000		25,000
Total Other Financing Receipts	0	25,000	0	25,000
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements	(52,246)	(29,674)	(401)	(82,321)
Fund Cash Balances, January 1	163,820	96,063	19,532	279,415
Fund Cash Balances, December 31	\$111,574	\$66,389	\$19,131	\$197,094

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

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

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 Paint Township, Highland 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 City of Hillsboro to provide fire services.

The Township is part of the Highland County Joint Township Hospital District, a jointly governed organization established for the public purpose of better providing for the health and welfare of the people primarily of Highland County. Trustees from each of the 17 townships of Highland County constitute the Highland County Joint Township Hospital Board of Trustees who appoints the Hospital Board of Governors which is composed of one member from each township and three at-large 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. Deposits and Investments

The Township's accounting basis includes cash as assets. The Township invests all available funds in a "Public Fund Now" checking account and Certificates of Deposit with a commercial bank. The Township values Certificates of Deposit at cost.

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 private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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.

3. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Rhoads, Beaver, and Hulitt nonexpendable Cemetery Bequests were bequeathed to the Township for the general upkeep of the specified 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, function or 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. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not use the encumbrance method of accounting.

A summary of 2008 and 2007 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.

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

2. Equity in Pooled Deposits and Investments

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

	2008	2007
Demand deposits	\$134,898	\$178,294
Certificates of deposit	18,800	18,800
Total deposits	153,698	197,094

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 2008 and 2007 follows:

2008 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$104,215	\$128,055	\$23,840
Special Revenue	228,650	274,102	45,452
Permanent	900	786	(114)
Total	\$333,765	\$402,943	\$69,178

2008 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$215,791	\$150,233	\$65,558
Special Revenue	358,697	295,295	63,402
Permanent	1,669	810	859
Total	\$576,157	\$446,338	\$129,819

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$106,765	\$227,521	\$120,756
Special Revenue	293,377	302,988	9,611
Permanent	600	849	249
Total	\$400,742	\$531,358	\$130,616

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

3. Budgetary Activity (Continued)

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$240,295	\$279,767	(\$39,472)
Special Revenue	389,440	332,662	56,778
Permanent	20,132	1,250	18,882
Total	\$649,867	\$613,679	\$36,188

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.

5. Debt

Debt outstanding at December 31, 2008 was as follows:

	Principal	Interest Rate
Grader Loan	20,599	5.25%
Total	\$20,599	

The Township obtained a loan with Merchants National Bank for the purchase of a grader for Township road maintenance.

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

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

5. Debt (Continued)

Year ending December 31:	<u>Loan</u>
2008	\$5,827
2009	5,827
2010	5,827
2011	5,827
2012	5,827
Total	<u><u>\$29,135</u></u>

6. Retirement Systems

The Township's elected officials and part-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2008 and 2007, OPERS members contributed 9.5 and 10%, respectively, of their gross salaries and the Township contributed an amount equaling 13.85 and 14%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2008.

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. 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.

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

7. Risk Management (Continued)

If losses exhaust PEP'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 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

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. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 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 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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.

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, 2007 and 2006 (the latest information available):

	<u>2007</u>	<u>2006</u>
Assets	\$43,210,703	\$42,042,275
Liabilities	<u>(13,357,837)</u>	<u>(12,120,661)</u>
Net Assets	<u>\$29,852,866</u>	<u>\$29,921,614</u>

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, 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 \$3,453. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

7. Risk Management (Continued)

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.

<u>Contributions to OTARMA</u>	
2005	\$4,521
2006	\$4,553
2007	\$3,210

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they provide 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.

8. Compliance

The Township failed to obtain the fiscal officer's certification for all expenditures as required by Ohio Revised Code Section 5705.41(D)

The Township did not pass a resolution to authorize borrowing for a promissory note or certify borrowing to the County Auditor in accordance with Ohio Rev. Code Section 505.262(A) & (B).

The Township did not follow competitive bidding procedures in accordance with Ohio Rev. Code Section 5575.01.

Expenditures exceed appropriations during 2007 in the General Fund by \$39,472 contrary to Ohio Revised Code Section 5705.41(B).

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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*

Paint Township
Highland County
13149 Barrett Mill Rd
Bainbridge, Ohio 45612

To the Township Board of Trustees:

We have audited the financial statements of the Paint Township, Highland County, Ohio (the Township), as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated December 7, 2009, 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 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 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 internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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.

We consider finding 2008-002 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We believe the significant deficiency described above is not a material weakness.

We noted certain matters that we reported to the Township's management in a separate letter dated December 7, 2009.

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 through 2008-004.

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 December 7, 2009.

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



Mary Taylor, CPA
Auditor of State

December 7, 2009

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Material Noncompliance

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

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.

1. "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 resolution.

Amounts of less than \$3,000 may be 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

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. 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.

Contrary to the above requirement, the availability of funds was not certified for 58% of the 2007 and 54% of the 2008 transactions tested. Even when prior certification was obtained, encumbrances were not posted in the appropriation ledger. Failure to certify the availability of funds and encumber appropriations reduces management's ability to monitor available appropriations and can result in overspending funds and negative cash balances.

**FINDING NUMBER 2008-001
(Continued)**

Unless the Township uses the exceptions noted above, prior certification is not only required by statute but also 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 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 officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. 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 orders to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2008-002

Material Noncompliance Citation/Significant Deficiency

Ohio Revised Code, Section 505.262(A), states that the Board of Township Trustees of any township, by unanimous vote, may adopt a resolution allowing the Township to contract for the purchase of equipment, buildings, and sites, or for the construction of buildings, for any lawful township purpose. The Board may issue, by resolution adopted by unanimous vote, securities of the Township to finance purchases and construction made pursuant to this division. The securities shall be signed by the board and attested by the signature of the township fiscal officer, and the maximum maturity of those securities is subject to the limitation in section 133.20 of the revised code. The securities shall bear interest not to exceed the rate determined as provided in section 9.95 of the revised code and shall not be subject to chapter 133 of the revised code. The resolution authorizing the issuance of the securities shall provide for levying and collecting annually by taxation, amounts sufficient to pay the interest on and principal of the securities. The securities may contain a clause permitting prepayments at the option of the board. Securities shall be offered for sale on the open market or given to the vendor or contractor if no sale is made.

Ohio Revised Code, Section 505.262(B), states no purchase or construction pursuant to division (A) of this section shall be undertaken unless the county auditor certifies that, if the purchase or construction is undertaken, the debt service charge for the purchase of construction on the first year, together with the debt service charge for that same year for any other purchase or construction already undertaken pursuant to division (A) of this section, does not exceed one-tenth of the township's total revenue from all sources. If the county auditor so certifies, in every year of the debt after the first year, the county budget commission shall include a debt charge in the township's annual tax budget submitted pursuant to section 5705.01 to 5704.47 of the Revised Code sufficient to meet the annual debt incurred pursuant to division (A) of this section, if the debt charge is omitted from the budget.

On December 6, 2007, the Township entered into a promissory note with Merchants National Bank for the purchase of a grader in the amount of \$25,000. The Township did not perform the following for the debt agreement:

- 1) Pass a resolution adopted by unanimous vote, to issue securities of the Township to finance the purchase

**FINDING NUMBER 2008-002
(Continued)**

- 2) Since no resolution was adopted, it did not include the statement that the issuance of the securities shall provide for levying and collecting annually by taxation, amounts sufficient to pay the interest on and principal of the securities.
- 3) Obtain certification from the County Auditor that, if the purchase is undertaken, the debt service charge for the purchase in the first year, together with the debt service charge for that same year for any other purchase or construction already undertaken pursuant to division (A) of this section, does not exceed one-tenth of the Township's total revenue from all sources.
- 4) Since no certification was received from the County Auditor, the county budget commission did not include a debt charge in the Township's annual tax budget submitted pursuant to section 5705.01 to 5704.47 of the revised code sufficient to meet the annual debt incurred pursuant to division (A) of this section, if the debt charge is omitted from the budget.

In addition, the Township did not record the receipt of proceeds or the expenditure in the amount of \$25,000 for the purchased equipment in their accounting records. An audit adjustment was made to properly reflect the receipt of the proceeds and the capital outlay expenditure for the purchase of the equipment.

Failure to follow debt issuance requirements and failure to properly post debt transactions to the Township's accounting records could result in a material misstatement to the financial statements.

We recommend that the Township consult with their legal counsel on how to correct these debt agreements and consult with their legal counsel or hire bond counsel before entering into any future debt agreements. We also recommend that the Township record the debt transactions in the Township's accounting records.

FINDING NUMBER 2008-003

Material Noncompliance

Ohio Revised Code, Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. During 2007, expenditures exceeded appropriations in the General fund by \$39,472. Failure to monitor budgetary expenditures and available appropriations can result in overspending funds and negative cash balances.

The management of the Township should monitor the budgetary receipts and expenditures by having the fiscal officer provide budgetary reports at least quarterly to be reviewed and approved by the Board. By regularly monitoring its budgetary position throughout the year, the Township will be better able to determine when amendments need to be made to original budgeted receipts thus avoiding negative fund/account code balances, and will be better prepared for making decisions which effect the overall cash position of the Township.

FINDING NUMBER 2008-004

Material Noncompliance

Ohio Revised Code, § 5575.01, states that, in the maintenance and repair of roads, the board of township trustees may either proceed by contract or force account. When the board proceeds by contract, the contract shall, if the amount involved exceeds forty-five thousand dollars, be let by the board to the lowest responsible bidder after advertisement for bids once, no later than two weeks prior to the date fixed for the letting of the contract, in a newspaper published in the county and of general circulation within the township. If the amount involved is forty-five thousand dollars or less, a contract may be let without competitive bidding.

During 2007 and 2008, the Township paid \$311,326, and \$161,930 respectively, to Miller Mason Paving for chip and seal projects on various roads. The Township did not follow competitive bidding procedures. Failure to follow competitive bidding procedures could result in overpayments on road projects. We recommend the Township advertise for bids and follow competitive bidding procedures to assure contracts are awarded to the lowest and best bidder.

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008 and 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Ohio Revised Code Section 5705.39 , provides that total appropriations from each fund shall not exceed the total estimated resources	Yes	
2006-002	Ohio Revised Code Section 5705.38 , requires that on or about the first day of each fiscal year, and appropriation measure is to be passed. Ohio Revised Code Section 5705.41(B) , requires that no subdivision or taxing unit is to expend money unless it has been appropriated	No	Corrected ORC Section 5705.38 We will repeat ORC 5705.41(B) as Finding Number 2008-004
2006-003	Ohio Revised Code Section 5705.41(D) , prior certification not obtained for expenditures	No	Repeated as Finding Number 2008-001



Mary Taylor, CPA
Auditor of State

PAINT TOWNSHIP
HIGHLAND 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
JANUARY 5, 2010