



Dave Yost • Auditor of State

SULLIVAN TOWNSHIP
ASHLAND COUNTY

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Dave Yost • Auditor of State

Sullivan Township
Ashland County
P.O. Box 9
Sullivan, Ohio 44880

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 Township 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 14, 2011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Sullivan Township
Ashland County
P.O. Box 9
Sullivan, Ohio 44880

To the Board of Trustees:

We have audited the accompanying financial statements of Sullivan Township, Ashland County, Ohio, (the Township) as of and for the years ended December 31, 2010 and 2009. 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(A) mandates 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 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, 2010 and 2009 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 September 30, 2011, 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 Sullivan Township, Ashland County, Ohio, as of December 31, 2010 and 2009, 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 October 14, 2011, 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.



Dave Yost
Auditor of State

October 14, 2011

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$62,669	\$111,497	\$174,166
Charges for Services		26,152	26,152
Licenses, Permits, and Fees	9,343	9,100	18,443
Intergovernmental	32,256	122,475	154,731
Earnings on Investments	20		20
Miscellaneous	63,667	6,078	69,745
	<u>167,955</u>	<u>275,302</u>	<u>443,257</u>
Cash Disbursements:			
Current:			
General Government	121,515	16	121,531
Public Safety		29,211	29,211
Public Works		181,257	181,257
Health	1,463	7,430	8,893
Conservation - Recreation	1,000		1,000
Capital Outlay	42,456	857	43,313
Debt Service:			
Redemption of Principal		22,286	22,286
	<u>166,434</u>	<u>241,057</u>	<u>407,491</u>
Total Cash Receipts Over Cash Disbursements	<u>1,521</u>	<u>34,245</u>	<u>35,766</u>
Other Financing Receipts / (Disbursements):			
Transfers-In		1,000	1,000
Transfers-Out	(1,000)		(1,000)
	<u>(1,000)</u>	<u>1,000</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	521	35,245	35,766
Fund Cash Balances, January 1	<u>49,161</u>	<u>108,976</u>	<u>158,137</u>
Fund Cash Balances, December 31	<u>\$49,682</u>	<u>\$144,221</u>	<u>\$193,903</u>

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

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$60,561	\$157,243	\$217,804
Charges for Services		23,299	23,299
Licenses, Permits, and Fees	6,562	4,550	11,112
Intergovernmental	33,731	125,239	158,970
Miscellaneous	13,594	1,850	15,444
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	114,448	312,181	426,629
Cash Disbursements:			
Current:			
General Government	152,613		152,613
Public Safety		76,329	76,329
Public Works		582,998	582,998
Health	1,474	536	2,010
Capital Outlay	21,900	5,781	27,681
Debt Service:			
Redemption of Principal	5,997		5,997
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	181,984	665,644	847,628
Total Cash Receipts Under Cash Disbursements	<hr/> (67,536)	<hr/> (353,463)	<hr/> (420,999)
Other Financing Receipts / (Disbursements):			
Other Debt Proceeds		411,665	411,665
Sale of Fixed Assets		2,000	2,000
Advances-In	11,900	11,900	23,800
Advances-Out	(11,900)	(11,900)	(23,800)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	0	413,665	413,665
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	<hr/> (67,536)	<hr/> 60,202	<hr/> (7,334)
Fund Cash Balances, January 1	<hr/> 116,697	<hr/> 48,774	<hr/> 165,471
Fund Cash Balances, December 31	<hr/> \$49,161	<hr/> \$108,976	<hr/> \$158,137

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

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 Sullivan Township, Ashland 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, cemetery maintenance, fire protection and emergency medical services.

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

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

Cash consists of demand deposits and a savings account.

D. Fund Accounting

The Township uses fund accounting to segregate cash that is 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:

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

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

Ambulance and Emergency Medical Services Fund - This fund receives property tax money and user fees for Township Ambulance and Emergency Medical Services.

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. 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 canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2010 and 2009 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.

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.

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

2. Equity in Pooled Deposits

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

	2010	2009
Demand deposits	\$193,642	\$157,876
Other time deposits (savings accounts)	261	261
Total deposits	\$193,903	\$158,137

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 ended December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$136,949	\$167,955	\$31,006
Special Revenue	254,896	276,302	21,406
Total	\$391,845	\$444,257	\$52,412

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$165,505	\$167,434	(\$1,929)
Special Revenue	350,300	241,057	109,243
Total	\$515,805	\$408,491	\$107,314

2009 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$107,670	\$114,448	\$6,778
Special Revenue	780,416	725,846	(54,570)
Total	\$888,086	\$840,294	(\$47,792)

2009 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$228,800	\$181,984	\$46,816
Special Revenue	816,087	665,664	150,423
Total	\$1,044,887	\$847,648	\$197,239

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

3. Budgetary Activity (Continued)

Noncompliance:

Contrary to Ohio Rev. Code Section 5705.41(D), the Township did not certify the availability of funds for certain expenditures during 2010 and 2009.

Contrary to Ohio Rev. Code Section 5705.42, the Township did not initially record Ohio Public Works Commission on-behalf loans as a receipt and disbursement in the Township's accounting records.

Contrary to Ohio Rev. Code Section 5705.36(A)(4), the Township had appropriations exceeding actual resources during 2010 and 2009.

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, 2010 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission Loan - 2006	\$185,917	0%
Ohio Public Works Commission Loan - 2009	401,374	0%
	<u>\$587,291</u>	

The 2006 Ohio Public Works Commission Loan was entered into to finance the Township Road 462 reconstruction and widening project. The project was started in 2005 and completed in 2006. This loan will be repaid in semi-annual installments of \$5,997, with no interest through January 1, 2026. The loan is collateralized by the Township's taxing authority.

The 2009 Ohio Public Works Commission Loan was entered into to finance the reconstruction and widening of Township Road 391. The project was started and completed in 2009. This loan will be repaid in semi-annual installments of \$10,292, with no interest through January 1, 2030. The loan is collateralized by the Township's taxing authority.

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

5. Debt (Continued)

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

Year ending December 31:	2006 OPWC Loan	2009 OPWC Loan
2011	\$11,995	\$20,583
2012	11,995	20,583
2013	11,995	20,583
2014	11,995	20,583
2015	11,995	20,583
2016-2020	59,975	102,916
2021-2025	59,970	102,916
2026-2030	5,997	92,627
Total	<u>\$185,917</u>	<u>\$401,374</u>

6. Retirement System

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 2010 and 2009, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries.

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 Workers' 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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of OTARMA and provides underwriting, claims, loss control, risk management, and reinsurance services for OTARMA. OTARMA is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. 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 and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2010, OTARMA retained \$350,000 for casualty claims and \$150,000 for property claims.

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

7. Risk Management (Continued)

The aforementioned casualty and property reinsurance agreement does not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

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, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Assets	\$35,855,252	\$38,982,088
Liabilities	<u>(10,664,724)</u>	<u>(12,880,766)</u>
Net Assets	<u>\$25,190,528</u>	<u>\$26,101,322</u>

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$9.9 and \$12.0 million of estimated incurred claims payable. The assets above also include approximately \$9.5 and \$11.5 million of unpaid claims to be billed to approximately 940 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Township's share of these unpaid claims collectible in future years is approximately \$12,372.

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.

Contributions to OTARMA

	<u>2010</u>	<u>2009</u>
	\$16,719	\$13,726

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's 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.

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

8. Contingent Liabilities

The Township is defendant in a lawsuit. Although management cannot presently determine the outcome of this suit, management's legal counsel has indicated it is unlikely the matter will be entirely favorably resolved to the benefit of the Township. The Township may be successful in forwarding a majority of the plaintiff's damages claims, there is likely some exposure in the \$10,000 to \$50,000 range. If the Court simply accepts the plaintiff's assertion that 192 documents are missing, the forfeiture statute would apply at \$1,000 per document penalty for a total amount of \$192,000.

Amounts grantor agencies pay to the Township are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

9. Legal Settlement

The Township was a defendant in a lawsuit. The lawsuit went to mediation and was completed on October 11, 2010. The outcome of the mediation was the plaintiffs were awarded \$80,000. The Township's insurance company, Ohio Township Association Risk Management Authority (OTARMA), paid \$10,000, and the Township was required to pay \$25,000 within 30 days of the Mediation. The Township is then to pay \$9,500 over the next four years on October 1 of each year, and a final payment of \$7,000 made by May 1, 2015.

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Dave Yost • Auditor of State

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

Sullivan Township
Ashland County
P.O. Box 9
Sullivan, Ohio 44880

To the Board of Trustees:

We have audited the financial statements of Sullivan Township, Ashland County, Ohio, (the Township) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated October 14, 2011, wherein we noted the Township followed 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 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(A) mandates 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001, 2010-002, 2010-005, 2010-006, and 2010-007 described in the accompanying schedule of findings to be material weaknesses.

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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-001 through 2010-004.

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated October 14, 2011.

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Township's responses and, accordingly, we express no opinion on them.

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



Dave Yost
Auditor of State

October 14, 2011

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-001

Material Weakness/Noncompliance

26 C.F.R. Section 1.6041-2 provides that wages, as defined in section 3401 are to be reported on Form W-2.

Our 2009 payroll testing noted a net amount of \$3,540 of January 2009 payroll disbursements were written on manual checks and were dated December 31, 2008 instead of January 1, 2009. Additionally, these payroll disbursements were not recorded to the Township's accounting records in either 2008 or 2009, and as a result, the withholdings of \$644 did not appear to be paid. We also noted these disbursements were omitted from each employee's 2009 and 2008 Form W-2.

As a result of this oversight, the General Fund's cash fund balance was overstated and cash disbursements understated by \$3,540 in 2009. These amounts were adjusted to the financial statements and Township's accounting records. These errors also contributed to the cash reconciliations issues described in Finding 2010-006.

The Township should ensure all transactions are recorded in their accounting records. In addition, the Township should ensure the W-2s are accurate at year end. Because of the understatement of the W-2 amount, the Township should issue amended W-2s for each employee affected by this payroll transaction, and amend the State and Federal tax forms, OPERS forms, and any other withholdings. This matter will be referred to the Internal Revenue Service, State Department of Taxation, and Ohio Public Employees Retirement System.

Officials' Response: The Township will ensure future W-2's and tax withholding are accurate and remitted. The 2009 W-2's will be reissued as recommended.

FINDING NUMBER 2010-002

Material Weakness/Noncompliance

Ohio Rev. Code Section 5705.42 requires in part, when the state or any department, division, agency authority or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity, or function of such subdivision, the amount is deemed appropriated and shall be recorded by the subdivision.

In 2009, the Ohio Public Works Commission (OPWC) expended \$411,665 for a road project on behalf of the Township. Under the terms of this agreement, OPWC made project payments directly to the vendor/contractor(s) on the Township's behalf. The OPWC on-behalf moneys in 2009 were not recognized as receipts and disbursements in the Township's accounting records, thus understating their receipts and disbursements. Adjustments were made to the financial statements to recognize these receipts and disbursements.

Any payments made on behalf of the Township by another party should be recorded by the Township as a receipt and disbursement. Failure to do so results in an understatement of receipts and disbursements. Additionally, since these grants are deemed appropriated pursuant to Ohio Rev. Code Section 5705.42, the Township should record the appropriations in their accounting records and should request an amended certificate of estimated resources to reflect the additional receipts.

Officials' Response: The Township acknowledges the Auditor's findings and will take the necessary actions to correct the issues.

FINDING NUMBER 2010-003

Noncompliance

Ohio Rev. Code Section 5705.41(D) provides no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision stating 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 both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the 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 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 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided 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.

41 percent of expenditures tested were not certified prior to incurring the obligation. It was also found none of the exceptions above were utilized for the items found to be in non-compliance. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balance.

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 purchase commitments received prior approval. To improve control over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, the Fiscal Officer should certify the funds are or will be available prior to the obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

FINDING NUMBER 2010-003 (Continued)

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.

Officials' Response: The Township acknowledges the Auditor's findings and will take the necessary actions to correct the issues.

FINDING NUMBER 2010-004

Noncompliance

Ohio Rev. Code Section 5705.36(A)(4) requires upon determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

At December 31, 2010 and 2009, total appropriations exceeded total actual resources (fund balance plus actual receipts) as follows:

<u>Fund</u>	<u>Total Actual Resources</u>	<u>Appropriations</u>	<u>Variance</u>
2010			
Special Revenue Funds:			
Motor Vehicle License Fund	\$42,773	\$43,112	(\$339)
Fire District Fund	14,430	16,755	(2,325)
2009			
Special Revenue Funds:			
Motor Vehicle License Fund	\$33,830	\$34,330	(\$500)
Gasoline Tax Fund	94,262	95,796	(1,534)
Road & Bridge Fund	538,706	585,762	(47,056)
Cemetery Fund	9,786	13,346	(3,560)

The Township should monitor appropriations versus actual resources to help avoid overspending. Additionally, if actual revenues are less than expected a reduced certificate of estimated resources should be obtained from the County Auditor and appropriations should be reduced accordingly.

Officials' Response: The Township acknowledges the Auditor's findings and will take the necessary actions to correct the issues.

FINDING NUMBER 2010-005

Material Weakness

Transaction Posting

Our receipt and expenditure testing revealed the Township recorded several transactions incorrectly. Mispostings identified included, but were not limited, to the following:

- In 2010, \$5,349 and \$7,600, respectively, of General Fund and Road and Bridge Fund homestead and rollback and tax replacement receipts were incorrectly posted to Property and Other Local Taxes receipts rather than Intergovernmental receipts. These amounts were adjusted to the financial statements.
- In 2010, \$1,861 of the second half personal property tax settlement was posted entirely to the Road and Bridge Fund rather than being allocated to all funds receiving property taxes, resulting in an understatement of General Fund receipts and cash fund balance and an equal overstatement of Road and Bridge Fund receipts and cash fund balance. This amount was adjusted to the financial statements.
- In 2010, \$5,618 of Local Government Revenue distributions were incorrectly posted as Motor Vehicle License Fund's Intergovernmental receipts, resulting in an understatement of General Fund receipts and cash fund balance and an equal overstatement of Motor Vehicle License Fund receipts and cash fund balance. This amount was adjusted to the financial statements.
- In 2010, \$2,150 of rental income and \$1,000 of cemetery lot sales was incorrectly posted to General Fund's Licenses, Permits and Fees receipts rather than General Fund Miscellaneous receipts and Cemetery Fund Miscellaneous receipts, respectively. In 2009, \$1,596 of various receipts were incorrectly posted to the General Fund's Licenses, Permits and Fees rather than General Fund Miscellaneous receipts, Tax receipts, Intergovernmental receipts, and Cemetery Fund License, Permit and Fees. These amounts were adjusted to the financial statements.
- In 2010 and 2009, \$3,465 and \$2,077, respectively of permissive tax receipts were incorrectly posted as Motor Vehicle License Fund's Intergovernmental receipts rather than Tax receipts. These amounts were adjusted to the financial statements.
- In 2009, \$2,000 of proceeds from sale of assets were incorrectly posted to Fire Fund Miscellaneous receipts rather than Sale of Assets receipts. This amount was adjusted to the financial statements.
- In 2010 and 2009, \$22,286 and \$5,997, respectively, of debt service payments were incorrectly posted to Gasoline Tax Fund's Public Works disbursements and General Fund's Capital Outlay rather than Debt Service disbursements. These amounts were adjusted to the financial statements.

The Township should review the Township's Handbook and exercise due care when posting transactions to help ensure receipts and expenditures are posted to the correct fund and account. Additionally, the Township's Board should review monthly receipt and disbursement activity reports to help ensure transactions are properly accounted for and classified. This will help more accurately reflect the Township's financial activity and will aid in more accurate financial reporting.

Officials' Response: The Township acknowledges the Auditor's findings and will take the necessary actions to correct the issues.

FINDING NUMBER 2010-006

Material Weakness

Bank Reconciliations

A necessary step in the internal control over financial reporting is to reconcile the bank balance to the accounting record's cash balance each month. Bank reconciliation means accounting for the differences between the balance of the bank statement(s) and the cash and investment balances according to the Township's records.

The Township's December 31, 2010 bank reconciliation initially showed a bank over book variance of \$1,493; and the Township's December 31, 2009 bank reconciliation initially showed a book over bank variance of \$4,842.

Our testing revealed these variances consisted of several accounting errors, including, but not limited to, the following:

- At December 31, 2010 and 2009, \$218 and \$134, respectively, of void checks were improperly included on the outstanding check list. In addition, at December 31, 2009, a \$391 check clearing the bank in October 2009 was improperly included on the outstanding check list.
- During 2010, \$580 of various bank charges, fees and other activity were not recorded in Township's accounting records. These amounts were adjusted to the Township's financial statements and accounting records.
- During January 2009, there were seven payroll checks for a net amount of \$3,540 dated December 31, 2008. However, the checks were for January 2009 payroll and were not recorded on the Township's books in 2008 or 2009. See Finding Number 2010-001 for additional information.
- During 2010 and 2009, \$1,399 and \$1,789, respectively, of Ohio Public Employee Retirement System (OPERS) payments were not posted to the Township's accounting records. See Finding Number 2010-007 for additional information.
- At December 31, 2010 and 2009, \$1,322 and (\$1,168), respectively, were adjusted to the Township's accounting records and financial statements to enable the Township's book balance to agree with the bank balance.

We also noted during 2010 and 2009, cash reconciliations were not always completed in a timely manner, as many of the months' reconciliations had a system run date in December.

Without complete and accurate monthly bank reconciliations, the Township's internal control is significantly weakened which could hinder management's timely detection of errors or irregularities. The Township should perform complete monthly bank reconciliations in a timely manner. Copies of the monthly bank reconciliations and listing of outstanding checks and other reconciling items should be provided to the Board each month for review. All unreconciled differences should be resolved as quickly as possible so they are not carried forward month-to-month and all reconciling matters should be appropriately documented.

Officials' Response: The Township acknowledges the Auditor's findings and will take the necessary actions to correct the issues.

FINDING NUMBER 2010-007

Material Weakness

Ohio Public Employees Retirement System Payments

During 2010 and 2009, various issues were noted with the Ohio Public Employees Retirement System (OPERS) withholdings and payments. The issues included, but were not limited, to the following:

- During 2010 and 2009, \$642 and (\$304), respectively, did not agree between what the payroll reports from the UAN system indicated should be the total OPERS payments for each year and what the Payment Register recorded as actual payments.
- During 2010 and 2009, \$1,399 and \$1,789, respectively, did not agree between what the Township posted to the Payment Register for each year and what was actually electronically submitted. These amounts were posted to the Township's financial statements and accounting records.
- During 2009, it was noted the January 2009 monthly payroll was not posted to the Township's accounting records. As a result, OPERS does not appear to have been paid for these wages earned.
- During 2010 and 2009, it was noted many monthly OPERS payments were paid late, resulting in late fees and penalties. Also, it appears the late fees and penalties were not always posted to the Townships accounting records. These items were posted to the Township's accounting records and financial statements.

The Township should ensure OPERS payments made are supported by the payroll reports, are made timely, and are correctly recorded to the accounting records. If a payment is made late and late fees and penalties are assessed, the Township should ensure these amounts are also posted to the accounting records. In addition, the Township should contact OPERS regarding the January 2009 payroll that was unreported to ensure the withholdings are remitted appropriately.

Officials' Response: The Township acknowledges the Auditor's findings and will take the necessary actions to correct the issues.

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Bank Reconciliations (Significant Deficiency) – The Township’s December 31, 2008 cash reconciliation had an unreconciled variance of \$1,542.	No	Not Corrected. Finding repeated as 2010-006.
2008-002	Transaction Posting (Material Weakness) – The Township had various receipts and expenditures recorded incorrectly.	No	Not Corrected. Finding repeated as 2010-005.
2008-003	Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16 (Material Weakness) – The Township made a transfer which was not approved by the Board in the minutes.	Yes	Finding No Longer Valid.
2008-004	Ohio Rev. Code Section 5705.39 – The Township had appropriations exceeding estimated resources at December 31, 2008 and 2007.	No	Not Corrected. Finding repeated in the Management Letter.

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Dave Yost • Auditor of State

SULLIVANT TOWNSHIP

ASHLAND COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 10, 2011**