



Dave Yost • Auditor of State

HANOVER TOWNSHIP
BUTLER COUNTY

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Dave Yost • Auditor of State

Hanover Township
Butler County
2595 Old Oxford Road
Hamilton, Ohio 45013

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.

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Dave Yost
Auditor of State

May 23, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Hanover Township
Butler County
2595 Old Oxford Road
Hamilton, Ohio 45013

To the Board of Trustee:

We have audited the accompanying financial statements of Hanover Township, Butler County, Ohio (the Township), as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Government'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 Government 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 Government 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, 2011 and 2010 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, 2011 and 2010, or its changes in financial position for the years then ended.

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www.auditor.state.oh.us

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances as of December 31, 2011 and 2010 and the reserves for encumbrances as of December 31, 2010 of Hanover Township, Butler County, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1, during 2011 Hanover Township adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2012 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 black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State

May 23, 2012

**HANOVER TOWNSHIP
BUTLER COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$159,056	\$719,211			\$878,267
Charges for Services		167,147			167,147
Licenses, Permits and Fees	67,690	68,000			135,690
Fines and Forfeitures	5,818				5,818
Intergovernmental	494,423	300,733			795,156
Earnings on Investments	1,297	242			1,539
Miscellaneous	16,574	53,080			69,654
<i>Total Cash Receipts</i>	<u>744,858</u>	<u>1,308,413</u>	<u>0</u>	<u>0</u>	<u>2,053,271</u>
Cash Disbursements					
Current:					
General Government	337,176	3,033			340,209
Public Safety	157,354	316,695			474,049
Public Works		505,750			505,750
Health	3,834	127,672			131,506
Human Services	1,740				1,740
Conservation-Recreation	10,260				10,260
Capital Outlay	3,419	64,426			67,845
Debt Service:					
Principal Retirement			81,300		81,300
Interest and Fiscal Charges			80,288		80,288
<i>Total Cash Disbursements</i>	<u>513,783</u>	<u>1,017,576</u>	<u>161,588</u>	<u>0</u>	<u>1,692,947</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>231,075</u>	<u>290,837</u>	<u>(161,588)</u>	<u>0</u>	<u>360,324</u>
Other Financing Receipts (Disbursements)					
Transfers In		10,000	161,588		171,588
Transfers Out		(169,522)		(2,066)	(171,588)
Advances In	2,695				2,695
Advances Out				(2,695)	(2,695)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>2,695</u>	<u>(159,522)</u>	<u>161,588</u>	<u>(4,761)</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	233,770	131,315	0	(4,761)	360,324
<i>Fund Cash Balances, January 1</i>	<u>524,115</u>	<u>541,729</u>		<u>4,761</u>	<u>1,070,605</u>
Fund Cash Balances, December 31					
Nonspendable	307	0	0	0	307
Restricted	0	565,008	0	0	565,008
Committed	0	108,036	0	0	108,036
Assigned	0	0	0	0	0
Unassigned (Deficit)	<u>757,578</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>757,578</u>
<i>Fund Cash Balances, December 31</i>	<u>\$757,885</u>	<u>\$673,044</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,430,929</u>

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

**HANOVER TOWNSHIP
BUTLER 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>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property and Other Local Taxes	\$125,664	\$622,551	\$0	\$0	\$748,215
Charges for Services		175,194			175,194
Licenses, Permits, and Fees	68,346	64,000			132,346
Fines and Forfeitures	3,925	0			3,925
Intergovernmental	319,156	472,674			791,830
Earnings on Investments	1,664	416		45	2,125
Miscellaneous	34,961	51,173			86,134
	<u>553,716</u>	<u>1,386,008</u>	<u>0</u>	<u>45</u>	<u>1,939,769</u>
Total Cash Receipts					
Cash Disbursements:					
Current:					
General Government	359,352	5,371			364,723
Public Safety	162,192	533,691			695,883
Public Works	0	716,145			716,145
Health	3,936	94,119			98,055
Conservation - Recreation	1,504				1,504
Capital Outlay	153,245	93,158		953,124	1,199,527
Debt Service:					
Redemption of Principal			80,300		80,300
Interest and Other Fiscal Charges			82,146		82,146
	<u>680,229</u>	<u>1,442,484</u>	<u>162,446</u>	<u>953,124</u>	<u>3,238,283</u>
Total Cash Disbursements					
Total Receipts Over/(Under) Disbursements	<u>(126,513)</u>	<u>(56,476)</u>	<u>(162,446)</u>	<u>(953,079)</u>	<u>(1,298,514)</u>
Other Financing Receipts / (Disbursements):					
Sale of Fixed Assets		23,256			23,256
Transfers-In			175,651		175,651
Transfers-Out	(99,615)	(76,036)			(175,651)
Advances-In				2,695	2,695
Advances-Out	(2,695)				(2,695)
Other Financing Uses	(2,135)				(2,135)
	<u>(104,445)</u>	<u>(52,780)</u>	<u>175,651</u>	<u>2,695</u>	<u>21,121</u>
Total Other Financing Receipts / (Disbursements)					
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	(230,958)	(109,256)	13,205	(950,384)	(1,277,393)
Fund Cash Balances, January 1	650,249	755,759	(13,205)	955,145	2,347,948
Fund Cash Balances, December 31	<u>\$419,291</u>	<u>\$646,503</u>	<u>\$0</u>	<u>\$4,761</u>	<u>\$1,070,555</u>
Reserve for Encumbrances, December 31	<u>\$4,725</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,725</u>

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

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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 Hanover Township, Butler 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 contracts with the Butler County Sheriff's Department to provide police protection services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Note 9 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 and Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

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.

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(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:

Emergency Medical Services and Fire Fund - This fund receives tax levy revenue as well as payments for services provided. .

3. Debt Service Funds

These funds account for resources the Township accumulates to pay bond and note debt. The Township had the following significant Debt Service Funds:

Fire House Debt – This fund maintains a balance which consists of monies transferred to the fund for the purpose of fire house debt repayment.

4. Capital Project Funds

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

Miscellaneous Capital Projects Fund - The fund maintains a balance which consists of monies transferred to the fund for the purpose of capital improvements.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

A summary of 2011 and 2010 budgetary activity appears in Note 3.

F. Fund Balance

For December 31, 2011, fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

G. 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.

H. Accumulated Leave

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

2. Equity in Pooled 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:

	2011	2010
Demand deposits	\$1,430,928	\$920,555
Certificates of deposit		150,000
Total deposits	\$1,430,928	\$1,070,555

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, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$737,213	\$744,858	\$7,645
Special Revenue	1,279,280	1,318,413	39,133
Debt Service	163,654	161,588	(2,066)
Capital Projects	0	0	0
Total	\$2,180,147	\$2,224,859	\$44,712

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

3. Budgetary Activity (Continued)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,256,603	\$513,783	\$742,820
Special Revenue	1,820,959	1,187,098	633,861
Debt Service	163,654	161,588	2,066
Capital Projects	2,066	2,066	0
Total	\$3,243,282	\$1,864,535	\$1,378,747

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$503,088	\$553,716	\$50,628
Special Revenue	1,347,381	1,409,264	61,883
Debt Service	162,446	175,651	13,205
Capital Projects	2,695	45	(2,650)
Total	\$2,015,610	\$2,138,676	\$123,066

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,171,845	\$786,704	\$385,141
Special Revenue	2,005,645	1,518,520	487,125
Debt Service	162,446	162,446	0
Capital Projects	91,178	953,124	(861,946)
Total	\$3,431,114	\$3,420,794	\$10,320

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.

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

5. Debt

Debt outstanding at December 31, 2011 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Bonds	\$1,925,000	4.36%
Firetruck Acquisition Bonds	22,300	4.95%
Ambulance Lease Purchase	\$59,614	5.15%
Vehicle Lease Purchase	13,684	4.35%
Total	<u>\$2,020,598</u>	

The Township issued General Obligation Firehouse Construction Bonds on October 1, 2009 to construct and acquire an addition to the existing firehouse. The bonds will be repaid in annual installments, with an interest rate of 4.36%, over a twenty four year period, maturing in December 2033. The bonds are secured by a levy on all taxable property in the Township.

The Township entered into a renewable lease-purchase agreement through Ohio Township Association Lease for the purchase of a new ambulance on September 1, 2008 for a period of 5 years at 5.15%. Payments of \$15,876 are made semiannually on May and November 15. The lease is collateralized by the ambulance. The Township recorded this lease as payments in the Capital Outlay line item in the Special Revenue EMS/Fire Fund.

The Township issued bonds in December 2002, to pay off general obligation notes for the acquisition of a fire truck. The bonds will be repaid in semiannual installments, with an interest rate of 4.95%, over a ten year period, maturing in December 2012. The bonds are secured by a pledge of faith, credit and revenue of the Board of Trustees.

The Township entered into a renewable lease-purchase agreement through Ohio Township Association Lease for the purchase of three vehicles for \$123,950 on April 1, 2007 for a period of 5 years at 4.35%. Payments of \$13,981 (including interest) are made semiannually on May 15 and November 15. The lease is collateralized by the vehicles. The Township recorded these lease payments in the Capital Outlay and Public Works line items in the Special Revenue Funds.

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

Year ending December 31:	General Obligation Firehouse Bonds	Firetruck Acquisition Bonds	Vehicles Lease - Purchase	Ambulance Lease - Purchase
2012	\$137,550	\$23,132	\$13,982	\$31,752
2013	136,290			31,752
2014	135,030			
2015	138,350			
2016	136,530			
2017-2021	692,330			
2022-2026	684,625			
2027-2031	689,712			
2032-2033	273,288			
Total	<u>\$3,023,705</u>	<u>\$23,132</u>	<u>\$13,982</u>	<u>\$63,504</u>

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

6. Retirement Systems

Employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. 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 2011 and 2010, OPERS members contributed 10, of their gHanover salaries and the Township contributed an amount equaling 14%, respectively, of participants' gHanover salaries. The Township has paid all contributions required through December 31, 2011.

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. 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.

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 the latest information available.

	<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>

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

7. Risk Management (Continued)

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 \$15,353

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>	
<u>2011</u>	<u>2010</u>
20,747	17,500

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.

8. Related Party Transactions

A Township Trustee also holds the position of Deputy of Administration with the Butler County Engineer's Office. The Township joins in on contracts with the Butler County Engineer's Office for road paving contracts that the Butler County Engineer's Office competitively bids.



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*

Hanover Township
Butler County
2595 Old Oxford Road
Hamilton, Ohio 45013

To the Board of Trustees:

We have audited the financial statements of Hanover Township, Butler County, Ohio (the Township), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated May 23, 2012, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Government 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. Furthermore, we noted that the Township implemented GASB 54 during 2011. 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 a certain deficiency in internal control over financial reporting, that we consider a material weakness and another deficiency we consider to be a significant deficiency.

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 entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-002 described in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2011-003 described in the accompanying schedule of findings to be a significant deficiency.

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 2011-001 and 2011-002..

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated May 23, 2012.

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



Dave Yost
Auditor of State

May 23, 2012

**HANOVER TOWNSHIP
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2011-001

Noncompliance Citation

Ohio Revised Code, Section 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 encumbrances.

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

Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

Of the twenty-seven transactions tested in 2010, three expenditures (11%) did not have certification prior to the obligation date and none of the three exceptions provided above were utilized. Of the twenty-seven transactions tested in 2011, three expenditures (11%) did not have certification prior to the Entity obligation date and none of the three exceptions provided above were utilized. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2011-001
 (Continued)**

Unless the Township uses the exceptions noted above, 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 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 2011-002

Noncompliance/Material Weakness

Ohio Revised Code, Section 5704.40, states that any appropriation ordinance or measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making the original appropriation and that no appropriation for any purpose shall be reduced below an amount sufficient to cover all un-liquidated and outstanding contracts or obligations certified from or against the appropriation. The Trustees did not approve all adjustments to appropriations made in the UAN system by the Fiscal Officer between January 1, 2010 and December 31, 2011.

The following table shows the appropriation amendments that were not approved:

Date	Fund	Amount
2/11/10	Fire/EMS Fund - 2281	\$(65,781)
2/11/10	Miscellaneous Capital Projects - 4901	(866,663)
12/29/10	General - 1000	9,450
9/22/11	General - 1000	1,912
9/22/11	Fire/EMS Fund - 2281	(1,912)

Failure to have all appropriations approved by the Trustees may result in misappropriation of funds, inadequate monitoring of the budget and inaccurate reporting of budgetary amounts in the financial statements.

We recommend that the Trustees formally approve all appropriation amendments. The Township should document the details of the amendments in the minutes. The Fiscal Officer should only post approved appropriation amendments to the UAN system.

FINDING NUMBER 2011-003

Significant Deficiency

When designing the public office's system of internal control and the specific control activities, management should:

- Ensure that all transactions are properly authorized in accordance with management's policies.
- Ensure that accounting records are properly designed.
- Ensure adequate security of assets and records.
- Plan for adequate segregation of duties or compensating controls.
- Verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.
- Perform analytical procedures to determine the reasonableness of financial data.
- Ensure the collection and compilation of the data needed for the timely preparation of financial statements.
- Monitor activities performed by service organizations.

The Township has delegated ambulance service billing processing, which is a significant accounting function, to a third-party administrator (Medicount Management and MBI). Statement of Auditing Standards No. 70 (SAS 70) as amended by SAS No. 89, prescribes standards for reporting on the processing of transactions by service organizations. An unqualified Tier II "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" in accordance with SAS No. 70, should provide the District with an appropriate level of assurance that ambulance service billing is being processed in conformance with the contract.

Medicount Management and MBI do have a Tier II SAS No. 70 audit performed. The Township was provided with copies of the SAS 70 reports for the audit period, however the Township did not review the report.

Therefore, the Township has not established procedures to determine whether the service organization has sufficient controls in place and operating effectively to reduce the risk that ambulance service billing has not been completely and accurately processed in accordance with the service contract.

In the future, the Township will need to acquire a report in accordance with SSAE No. 116, which will replace the SAS 70 report requirement.

We recommend the Township implement procedures to reasonably assure the completeness and accuracy of ambulance service billings processed by their third-party administrator. The Township should review the report's content. A SSAE No. 116 report should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. If the third-party administrator refuses to provide you with SSAE No. 16 report, we recommend you only contract with a third-party administrator that will provide such a report.

**FINDING NUMBER 2011-003
(Continued)**

We further recommend, with or without a SSAE No. 116 report as described above, that the Township put into place internal control measures to monitor the ambulance service billing process. The Township receives monthly EMS billing reports from Medicount Management and MBI. However, there is no documentation of supervisory review of these monthly reports. To improve internal controls we recommend that the Township document their review of the monthly billing reports received from Medicount and MBI. The monthly billing reports should be marked with the reviewer's initials (or signature) and the date. The monthly billing reports should also be compared to the EMS run sheets or run logs to ensure they are accurate and complete. Additionally, the Township should reconcile the receipts received and posted by the Township and reported to Medicount and MBI as received to ensure all revenue is reported correctly by Medicount Management and MBI on the monthly reports.

**HANOVER TOWNSHIP
BUTLER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Ohio Rev. Code Section 5705.41(D)(1) Failure to encumber	No	Not Corrected Repeated as 2011-001
2009-002	Ohio Rev. Code Section 5704.40 Failure to approve appropriation amendments	No	Not Corrected Repeated as 2011-002
2009-003	Ohio Rev. Code Section 5705.41(B), 5705.42 Prohibits spending money unless appropriated	Yes	Corrected
2009-004	Controls over the service organization (Medicount Management)	No	Not Corrected Repeated as Finding 2011-003
2009-005	Ohio Admin. Code Section 117-2-01(D) Proper recording of revenue and financial record keeping	Yes	Corrected

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Dave Yost • Auditor of State

HANOVER TOWNSHIP

BUTLER 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
JUNE 19, 2012