



Dave Yost • Auditor of State

FAYETTE TOWNSHIP
LAWRENCE COUNTY

TABLE OF CONTENTS

| TITLE | PAGE |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| Independent Auditor's Report | 1 |
| Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2012 | 5 |
| Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2011 | 6 |
| Notes to the Financial Statements | 7 |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 15 |
| Schedule of Findings..... | 17 |
| Schedule of Prior Audit Findings..... | 21 |

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Fayette Township
Lawrence County
104 Fitzpatrick Street
South Point, Ohio 45680

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Fayette Township, Lawrence County, Ohio (the Township), as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Township's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2012 and 2011, or changes in financial position thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Fayette Township, Lawrence County, as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during 2011 the Township adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

July 2, 2013

This page intentionally left blank.

**FAYETTE TOWNSHIP
LAWRENCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | General | Special Revenue | Totals (Memorandum Only) |
|-------------------------------------------------------|-------------------------|-------------------------|--------------------------------|
| Cash Receipts | | | |
| Property and Other Local Taxes | \$69,244 | \$154,995 | \$224,239 |
| Licenses, Permits and Fees | 65,350 | | 65,350 |
| Intergovernmental | 24,463 | 168,130 | 192,593 |
| Earnings on Investments | 664 | 252 | 916 |
| Miscellaneous | 10,114 | 7,876 | 17,990 |
| <i>Total Cash Receipts</i> | <u>169,835</u> | <u>331,253</u> | <u>501,088</u> |
| Cash Disbursements | | | |
| Current: | | | |
| General Government | 134,144 | 7,179 | 141,323 |
| Public Safety | | 88,816 | 88,816 |
| Public Works | 6,966 | 144,329 | 151,295 |
| Conservation-Recreation | 25,433 | | 25,433 |
| Capital Outlay | 5,162 | | 5,162 |
| Debt Service: | | | |
| Principal Retirement | 69,328 | 212,529 | 281,857 |
| Interest and Fiscal Charges | 3,934 | 9,200 | 13,134 |
| <i>Total Cash Disbursements</i> | <u>244,967</u> | <u>462,053</u> | <u>707,020</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(75,132)</u> | <u>(130,800)</u> | <u>(205,932)</u> |
| Other Financing Receipts (Disbursements) | | | |
| Sale of Bonds | 57,951 | 221,729 | 279,680 |
| <i>Total Other Financing Receipts (Disbursements)</i> | <u>57,951</u> | <u>221,729</u> | <u>279,680</u> |
| <i>Net Change in Fund Cash Balances</i> | (17,181) | 90,929 | 73,748 |
| <i>Fund Cash Balances, January 1</i> | <u>363,869</u> | <u>502,761</u> | <u>866,630</u> |
| Fund Cash Balances, December 31 | | | |
| Restricted | 0 | 593,690 | 593,690 |
| Assigned | 207,285 | 0 | 207,285 |
| Unassigned (Deficit) | 139,403 | 0 | 139,403 |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$346,688</u></u> | <u><u>\$593,690</u></u> | <u><u>\$940,378</u></u> |

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

**FAYETTE TOWNSHIP
LAWRENCE 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 | Totals (Memorandum Only) |
|------------------------------------------------------|------------------|--------------------|--------------------------------|
| Cash Receipts | | | |
| Property and Other Local Taxes | \$77,115 | \$168,353 | \$245,468 |
| Licenses, Permits and Fees | 62,545 | | 62,545 |
| Intergovernmental | 50,248 | 136,300 | 186,548 |
| Earnings on Investments | 1,057 | 437 | 1,494 |
| Miscellaneous | 6,491 | 11,665 | 18,156 |
| <i>Total Cash Receipts</i> | <u>197,456</u> | <u>316,755</u> | <u>514,211</u> |
| Cash Disbursements | | | |
| Current: | | | |
| General Government | 134,319 | 24,270 | 158,589 |
| Public Safety | | 76,712 | 76,712 |
| Public Works | 9,049 | 128,485 | 137,534 |
| Conservation-Recreation | 9,524 | | 9,524 |
| Capital Outlay | 5,499 | | 5,499 |
| Debt Service: | | | |
| Principal Retirement | 11,555 | 33,143 | 44,698 |
| Interest and Fiscal Charges | 3,951 | 10,971 | 14,922 |
| <i>Total Cash Disbursements</i> | <u>173,897</u> | <u>273,581</u> | <u>447,478</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>23,559</u> | <u>43,174</u> | <u>66,733</u> |
| <i>Fund Cash Balances, January 1</i> | <u>340,310</u> | <u>459,587</u> | <u>799,897</u> |
| Fund Cash Balances, December 31 | | | |
| Restricted | 0 | 502,761 | 502,761 |
| Assigned | 216,005 | 0 | 216,005 |
| Unassigned (Deficit) | 147,864 | 0 | 147,864 |
| <i>Fund Cash Balances, December 31</i> | <u>\$363,869</u> | <u>\$502,761</u> | <u>\$866,630</u> |

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

**FAYETTE TOWNSHIP
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

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 Fayette Township, Lawrence County (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance and fire protection.

The Township participates in the Ohio Township Risk Management Association (OTARMA) public entity risk pool. Note 8 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 has no investments.

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 accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Funds:

FAYETTE TOWNSHIP
LAWRENCE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(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.

Special Levy Fund – This fund receives property tax money to provide fire protection for Township residents.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2012 and 2011 budgetary activity appears in Note 4.

F. Fund Balance

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.

FAYETTE TOWNSHIP
LAWRENCE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (Continued)

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.

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.

2. Change in Accounting Principle

During 2011, the Township implemented Governmental Accounting Standards Board (GASB) Statement No. 54. Implementing GASB Statement No. 54 had no effect on fund balances previously reported.

**FAYETTE TOWNSHIP
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

3. 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 at December 31 was as follows:

| | | |
|-----------------|-----------|-----------|
| | 2012 | 2011 |
| Demand deposits | \$940,378 | \$866,630 |

Deposits: Deposits are collateralized by securities specifically pledged by the financial institution to the Township.

4. Budgetary Activity

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

| 2012 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$122,046 | \$227,786 | \$105,740 |
| Special Revenue | 505,379 | 552,982 | 47,603 |
| Total | \$627,425 | \$780,768 | \$153,343 |

| 2012 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|-------------------------------------------------------|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$337,168 | \$244,967 | \$92,201 |
| Special Revenue | 672,228 | 462,053 | 210,175 |
| Total | \$1,009,396 | \$707,020 | \$302,376 |

| 2011 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$155,520 | \$197,456 | \$41,936 |
| Special Revenue | 311,009 | 316,755 | 5,746 |
| Total | \$466,529 | \$514,211 | \$47,682 |

**FAYETTE TOWNSHIP
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

4. Budgetary Activity (Continued)

| 2011 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|-------------------------------------------------------|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$288,900 | \$173,897 | \$115,003 |
| Special Revenue | 438,916 | 273,581 | 165,335 |
| Total | \$727,816 | \$447,478 | \$280,338 |

Contrary to Ohio law, the Township did not encumber all commitments required by Ohio law.

5. 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.

Public utilities area 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.

6. Debt

Debt outstanding at December 31, 2012 was as follows:

| | Principal | Interest Rate |
|-------------------------|-----------|---------------|
| General Obligation Bond | \$279,679 | 2% |
| Total | \$279,679 | |

During 2012, the Township issued Various Purpose Bond Series 2012 in the amount of \$279,679 to refinance prior loans, the proceeds of which were used for the purchase of a fire truck, a water tanker, and a grader. The Township's taxing authority collateralized the bonds. The first payment is due June 1, 2013 for a period of five years.

**FAYETTE TOWNSHIP
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

6. Debt (Continued)

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

| Year ending December 31: | General Obligation Bonds |
|--------------------------|--------------------------------|
| 2013 | \$59,158 |
| 2014 | 59,318 |
| 2015 | 59,322 |
| 2016 | 59,310 |
| 2017 | 59,364 |
| Total | <u>\$296,472</u> |

7. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2012.

8. 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. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. 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, 2012, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

**FAYETTE TOWNSHIP
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

8. 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, 2012 and 2011 (the latest information available):

| | <u>2012</u> | <u>2011</u> |
|-------------|---------------------|---------------------|
| Assets | \$34,771,270 | \$35,086,165 |
| Liabilities | (9,355,082) | (9,718,792) |
| Net Assets | <u>\$25,416,188</u> | <u>\$25,367,373</u> |

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$8.7 and \$9.1 million of estimated incurred claims payable. The assets above also include approximately \$7.96 and \$8.6 million of unpaid claims to be billed to approximately 944 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Township's share of these unpaid claims collectible in future years is approximately \$10,000.

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>2012</u> | <u>2011</u> |
| \$17,470 | \$17,432 |

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.

**FAYETTE TOWNSHIP
LAWRENCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

9. Contingent Liabilities

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.



Dave Yost • Auditor of State

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

Fayette Township
Lawrence County
104 Fitzpatrick Street
South Point, Ohio 45680

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Fayette Township, Lawrence County, Ohio (the Township), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated July 2, 2013 wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits and adopted the provisions of Governmental Accounting Standards Board Statement No. 54.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Township's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. 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.

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. We consider Finding 2012-02 described in the accompanying Schedule of Findings to be a material weakness.

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2012-01.

Entity's Response to Findings

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.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

July 2, 2013

**FAYETTE TOWNSHIP
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2012-01

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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:

Then and Now Certificate - If the fiscal officer can certify that both at the time the contract or order was made "then" and at the time that the fiscal officer is completing the certification "now", that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has 30 days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance. Amounts of less than \$3,000, may be paid by the fiscal officer without a resolution or ordinance of the Township 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.

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.

Super Blanket Certificate - The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

The Fiscal Officer did not obtain prior certification for 29% of 2011 and 13% of 2012 tested disbursements. We found no evidence of the Township utilizing a "then and now" certificate in these instances. The Township did not require prior certification of a purchase order before the Township incurred an obligation.

FAYETTE TOWNSHIP
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2012-01 (Continued)

Ohio Rev. Code Section 5705.41(D)(1) – Noncompliance Citation (Continued)

Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend the Fiscal Officer certify that funds are or will be available prior to obligations being incurred by the Township. When prior certification is not possible, "then and now" certificates should be used.

We recommend the Township certify purchases to which Ohio Rev. Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification prior to the Township incurring a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

Official's Response:

We will strive to correct this item for future audits. We will begin using "then and now" certificates when emergency purchases are necessary.

FINDING NUMBER 2012-02

Material Weakness

Sound financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustment or reclassification:

2011:

- In the General Fund, \$13,579 in Intergovernmental receipts were posted as Taxes; \$2,855 in Intergovernmental receipts and \$858 in Taxes were posted as Miscellaneous.
- In the General Fund, an Intergovernmental receipt was understated by \$144. The fund balance was increased by this amount.
- Trustee salaries of \$5,144 were incorrectly posted to the Motor Vehicle License Tax Fund rather than the General Fund.

FAYETTE TOWNSHIP
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2012-02 (Continued)

Material Weakness (Continued)

2011 (Continued):

- Trustee salaries of \$5,144 were incorrectly posted to the Gasoline Tax Fund rather than the General Fund.
- In the Gasoline Tax Fund, Miscellaneous receipts of \$610 were posted as Intergovernmental which should have been posted as a reduction of expenditure.
- In the Road & Bridge Fund, \$4,925 in Intergovernmental receipts were posted as taxes.
- In the Road & Bridge Fund, an Intergovernmental receipt was understated by \$912. The Fund balance was increased by this amount.
- In the Special Levy Fund, \$24,108 in Intergovernmental receipts were posted as Taxes.
- Special Levy Tax Receipts of \$1,057 should have been posted to the General Fund and the Road and Bridge Fund as Intergovernmental.
- In the Special Levy Fund, \$2,053 in Intergovernmental receipts were posted as Miscellaneous.
- Insurance reimbursements totaling \$3,398 were posted to the Gasoline Tax Fund rather than the General Fund.
- In the General Fund, \$216,005 of the Fund balance should have been classified as Assigned, rather than Unassigned as a result of FY 2012 appropriations exceeding estimated receipts.

2012:

- In the General Fund, \$12,092 in Intergovernmental receipts were posted as Taxes.
- In the General Fund, a 2013 receipt of \$744 was posted to 2012 as Taxes.
- In the Gasoline Tax Fund, a 2013 receipt of \$5,286 was posted to 2012.
- The proceeds from the bond issue were incorrectly classified as Miscellaneous as follows: \$125,271 in the General Fund and \$221,729 in the Special Levy Fund.
- In the General Fund, a debt payment of \$94 was classified as interest rather than principle.
- In the General Fund, the reduction of bond proceeds in the amount of \$67,320 was classified as a Capital Outlay.
- In the Road & Bridge Fund, \$5,107 in Intergovernmental receipts were posted as Taxes.
- In the Special Levy Fund, \$19,576 in Intergovernmental receipts were posted as Taxes.
- In the Special Levy Fund, a debt payment of \$51 was classified as interest rather than principle.
- In the General Fund, \$207,285 of the fund balance should have been classified as Assigned rather than Unassigned for FY 2013 appropriations exceeding estimated receipts.
- In the Road and Bridge fund, \$60,142 of the fund balance should have been classified as Restricted rather than Committed.
- In the Gasoline Tax Fund, expenditure in the amount of \$228 was not recorded in the proper year.

FAYETTE TOWNSHIP
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2012-02 (Continued)

Material Weakness (Continued)

2012 (Continued):

- In the General Fund, an expenditure in the amount of \$1,376 was not recorded in the proper year.
- Insurance reimbursements totaling \$260 were posted to the Gasoline Tax Fund rather than the General Fund.

The audited financial statements and Township's accounting system reflect the above adjustments.

To ensure the Township's financial statements and notes to the financial statements are complete and accurate, we recommend that the Township's Fiscal Officer review the Ohio Township Handbook for guidance on the correct line item to post various receipts and expenditures of the Township.

Official's Response:

We will strive to correct this item for future audits. We will review the Ohio Township Handbook to determine proper posting of receipts and expenditures.

**FAYETTE TOWNSHIP
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---------------------------------------------------------------------------------------------------------------------------------|------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| 2010-001 | Noncompliance Citation - Finding for Recovery relating to Ohio Rev. Code Section 505.60(D). | Yes | |
| 2010-002 | Noncompliance Citation - Finding for Recovery relating to mileage reimbursement. | Yes | |
| 2010-003 | Noncompliance citation - Expenditures not for proper public purpose. | Yes | |
| 2010-004 | Noncompliance Citation associated with Ohio Rev. Code Section 5705.41(D)(1) and the certification of funds prior to commitment. | No | Reissued as Finding Number 2012-01. |
| 2010-005 | Material weakness regarding sound financial reporting. | No | Reissued as Finding Number 2012-02. |

This page intentionally left blank.



Dave Yost • Auditor of State

FAYETTE TOWNSHIP

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 1, 2013**