



Mary Taylor, CPA
Auditor of State

HANOVER TOWNSHIP
BUTLER COUNTY

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Mary Taylor, CPA 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.

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

Mary Taylor, CPA
Auditor of State

May 17, 2010

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of Hanover Township, Butler County, Ohio (the Township), as of and for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to 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, 2009 and 2008 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, 2009 for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Hanover Township, Butler County, Ohio, as of December 31, 2009 and 2008, 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 May 17, 2010, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

May 17, 2010

**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, 2009**

| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Totals (Memorandum Only)</u> |
|---|-------------------------|----------------------------|--------------------------|-----------------------------|---|
| Cash Receipts: | | | | | |
| Property and Other Local Taxes | \$129,972 | \$630,293 | \$0 | | \$760,265 |
| Charges for Services | | 95,403 | | | 95,403 |
| Licenses, Permits, and Fees | 66,570 | 72,650 | | | 139,220 |
| Fines and Forfeitures | 4,323 | | | | 4,323 |
| Intergovernmental | 684,443 | 286,439 | | | 970,882 |
| Earnings on Investments | 2,356 | 1,469 | | \$163 | 3,988 |
| Miscellaneous | 11,837 | 69,820 | | | 81,657 |
| Total Cash Receipts | <u>899,501</u> | <u>1,156,074</u> | <u>0</u> | <u>163</u> | <u>2,055,738</u> |
| Cash Disbursements: | | | | | |
| Current: | | | | | |
| General Government | 335,627 | 7,143 | | | 342,770 |
| Public Safety | 149,728 | 350,455 | | | 500,183 |
| Public Works | | 696,683 | | | 696,683 |
| Health | 3,874 | 102,357 | | | 106,231 |
| Conservation - Recreation | 4,173 | | | | 4,173 |
| Other | 229 | | | | 229 |
| Capital Outlay | | 117,310 | | 995,018 | 1,112,328 |
| Debt Service: | | | | | |
| Redemption of Principal | | | 19,300 | | 19,300 |
| Interest and Other Fiscal Charges | | | 17,088 | 95,000 | 112,088 |
| Total Cash Disbursements | <u>493,631</u> | <u>1,273,948</u> | <u>36,388</u> | <u>1,090,018</u> | <u>2,893,985</u> |
| Total Receipts Over/(Under) Disbursements | <u>405,870</u> | <u>(117,874)</u> | <u>(36,388)</u> | <u>(1,089,855)</u> | <u>(838,247)</u> |
| Other Financing Receipts / (Disbursements): | | | | | |
| Sale of Bonds | | | | 2,045,000 | 2,045,000 |
| Transfers-In | | 11,491 | 23,183 | | 34,674 |
| Transfers-Out | | (34,674) | | | (34,674) |
| Other Financing Uses | (1,065) | | | | (1,065) |
| Total Other Financing Receipts / (Disbursements) | <u>(1,065)</u> | <u>(23,183)</u> | <u>23,183</u> | <u>2,045,000</u> | <u>2,043,935</u> |
| Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements | <u>404,805</u> | <u>(141,057)</u> | <u>(13,205)</u> | <u>955,145</u> | <u>1,205,688</u> |
| Fund Cash Balances, January 1 | <u>245,444</u> | <u>896,816</u> | <u>0</u> | <u>0</u> | <u>1,142,260</u> |
| Fund Cash Balances, December 31 | <u>\$650,249</u> | <u>\$755,759</u> | <u>(\$13,205)</u> | <u>\$955,145</u> | <u>\$2,347,948</u> |
| Reserve for Encumbrances, December 31 | <u>\$0</u> | <u>\$52,576</u> | <u>\$0</u> | <u>\$866,667</u> | <u>\$919,243</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, 2008**

| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Totals (Memorandum Only)</u> |
|--|-------------------------|----------------------------|-------------------------|-----------------------------|---|
| Cash Receipts: | | | | | |
| Property and Other Local Taxes | \$126,126 | \$598,487 | \$23,204 | | \$747,817 |
| Charges for Services | | 108,899 | | | 108,899 |
| Licenses, Permits, and Fees | 63,167 | 65,400 | | | 128,567 |
| Fines and Forfeitures | 815 | 0 | | | 815 |
| Intergovernmental | 510,935 | 241,983 | | \$74,000 | 826,918 |
| Earnings on Investments | 13,704 | 10,900 | | | 24,604 |
| Miscellaneous | 12,184 | 65,523 | | | 77,707 |
| Total Cash Receipts | <u>726,931</u> | <u>1,091,192</u> | <u>23,204</u> | <u>74,000</u> | <u>1,915,327</u> |
| Cash Disbursements: | | | | | |
| Current: | | | | | |
| General Government | 306,870 | 7,248 | | | 314,118 |
| Public Safety | 158,986 | 335,160 | | | 494,146 |
| Public Works | 0 | 559,339 | | | 559,339 |
| Health | 6,296 | 102,695 | | | 108,991 |
| Conservation - Recreation | 125 | | | | 125 |
| Capital Outlay | 37,289 | 28,242 | | 74,000 | 139,531 |
| Debt Service: | | | | | |
| Redemption of Principal | | | 18,400 | | 18,400 |
| Interest and Other Fiscal Charges | | | 4,804 | | 4,804 |
| Total Cash Disbursements | <u>509,566</u> | <u>1,032,684</u> | <u>23,204</u> | <u>74,000</u> | <u>1,639,454</u> |
| Total Receipts Over Disbursements | <u>217,365</u> | <u>58,508</u> | <u>0</u> | <u>0</u> | <u>275,873</u> |
| Fund Cash Balances, January 1 | <u>28,079</u> | <u>838,308</u> | | | <u>866,387</u> |
| Fund Cash Balances, December 31 | <u>\$245,444</u> | <u>\$896,816</u> | <u>\$0</u> | <u>\$0</u> | <u>\$1,142,260</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, 2009 AND 2008**

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 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, which is available to Ohio townships. OTARMA provides property and casualty coverage for its members. 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 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.

Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report. The Township values certificates of deposit at cost. US Government Securities Portfolios are priced based on the amortized cost of the Portfolio's securities. The amortized cost valuation method involved valuing a debt obligation in reference to its cost rather than market forces.

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, 2009 AND 2008
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

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

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

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

3. 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 Fund:

Fire Station Construction and Renovation - The fund received proceeds from the issuance of bonds to renovate and construct the fire station.

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 canceled, and reappropriated in the subsequent year. However, for fiscal year 2009, the Township did not cancel numerous encumbrances pertaining to the renovation and construction of the fire station. The Township did not encumber all commitments required by Ohio law.

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

A summary of 2009 and 2008 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.

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:

| | 2009 | 2008 |
|--------------------------------|-------------|-------------|
| Demand deposits | \$1,142,803 | \$892,260 |
| Certificates of deposit | 250,000 | 250,000 |
| Total deposits | 1,392,803 | 1,142,260 |
| U.S. Government Securities | 955,145 | 0 |
| Total investments | 955,145 | 0 |
| Total deposits and investments | \$2,347,948 | \$1,142,260 |

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

Investments: The Township's U.S. Government Securities are in book-entry form in the name of the Township at their financial institution. The financial institution maintains records identifying the Township as owner of these securities.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2009 and 2008 follows:

| 2009 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$725,508 | \$899,501 | \$173,993 |
| Special Revenue | 1,146,263 | 1,167,565 | 21,302 |
| Debt Service | 13,205 | 23,183 | 9,978 |
| Capital Projects | 2,045,000 | 2,045,163 | 163 |
| Total | \$3,929,976 | \$4,135,412 | \$205,436 |

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

3. Budgetary Activity (Continued)

| 2009 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$717,688 | \$494,896 | \$222,792 |
| Special Revenue | 1,991,326 | 1,360,998 | 630,328 |
| Debt Service | 23,183 | 36,388 | (13,205) |
| Capital Projects | 2,045,000 | 1,956,685 | 88,315 |
| Total | \$4,777,197 | \$3,848,967 | \$928,230 |

| 2008 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$724,836 | \$726,931 | \$2,095 |
| Special Revenue | 1,075,600 | 1,091,192 | 15,592 |
| Debt Service | 23,204 | 23,204 | 0 |
| Capital Projects | 63,000 | 74,000 | 11,000 |
| Total | \$1,886,640 | \$1,915,327 | \$28,687 |

| 2008 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$496,470 | \$509,566 | (\$13,096) |
| Special Revenue | 1,811,752 | 1,032,684 | 779,068 |
| Debt Service | 23,204 | 23,204 | 0 |
| Capital Projects | 63,000 | 74,000 | (11,000) |
| Total | \$2,394,426 | \$1,639,454 | \$754,972 |

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Fire Station Debt Service fund by \$13,205 for the year ended December 31, 2009 and in the General Fund and CDBG Capital Projects Fund 4401 by \$13,096 and \$11,000 respectively.

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.

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

4. Property Tax (Continued)

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, 2009 was as follows:

| | | |
|-----------------------------|--------------------|-------|
| General Obligation Bonds | \$2,045,000 | 4.36% |
| Firetruck Acquisition Bonds | \$63,900 | 4.95% |
| Ambulance Lease Purchase | \$113,467 | 5.15% |
| Vehicle Lease Purchase | 63,242 | 4.35% |
| Total | <u>\$2,285,609</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 obligations 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.

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

5. Debt (Continued)

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

| Year ending December 31: | General Obligations Firehouse Bonds | Firetruck Acquisition Bonds | Vehicles Lease - Purchase | Ambulance Lease - Purchase |
|--------------------------|--|-----------------------------------|---------------------------------|----------------------------------|
| 2010 | \$139,230 | \$23,216 | \$27,963 | \$31,752 |
| 2011 | 138,390 | 23,198 | 27,963 | 31,752 |
| 2012 | 137,550 | 23,132 | 13,982 | 31,752 |
| 2013 | 136,290 | | | 31,752 |
| 2014 | 135,030 | | | |
| 2015-2019 | 691,230 | | | |
| 2020-2024 | 688,465 | | | |
| 2025-2029 | 685,765 | | | |
| 2030-2033 | 549,375 | | | |
| Total | <u>\$3,301,325</u> | <u>\$69,546</u> | <u>\$69,908</u> | <u>\$127,008</u> |

6. Retirement Systems

A. Ohio Public Employee Retirement System

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 2009 and 2008, 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, 2009.

B. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the OPERS have an option to choose Social Security. As of December 31, 2009 and 2008, 41 and 45 employees of the Township's volunteer Fire and EMS department, respectively, of the Township have elected Social Security. The employees' liability is 6.2 percent of wages paid.

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.

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

7. Risk Management (Continued)

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, 2008, OTARMA retained \$350,000 for casualty claims and \$100,000 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.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2008 and 2007 (the latest information available):

| | <u>2008</u> | <u>2007</u> |
|-------------|---------------------|---------------------|
| Assets | \$40,737,740 | \$43,210,703 |
| Liabilities | <u>(12,981,818)</u> | <u>(13,357,837)</u> |
| Net Assets | <u>\$27,755,922</u> | <u>\$29,852,866</u> |

At December 31, 2008 and 2007, respectively, liabilities above include approximately \$12.1 and \$12.5 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$10.9 and \$11.6 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2008 and 2007, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$14,614.

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.

**HANOVER TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

7. Risk Management (Continued)

| Contributions to OTARMA | |
|--------------------------------|-----------|
| 2007 | \$ 18,927 |
| 2008 | 20,699 |
| 2009 | 16,993 |

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

8. 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.

A Township Trustee also held the position of Deputy Sheriff with the Butler County Sheriff's office for a part of the audit period. The Township contracts with the Butler County Sheriff's Office for police protection. The Township paid Butler County \$146,038 in 2009 and \$158,476 in 2008 for police protection.



Mary Taylor, CPA

Auditor of State

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

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

To the Township 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, 2009 and 2008, and have issued our report thereon dated May 17, 2010, 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 Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit Hanover Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for 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 finding we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses 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 2009-002, 2009-003, and 2009-005 described in the accompanying schedule of findings to be material weaknesses.

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 2009-004 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 2009-001 to 2009-003 and 2009-005.

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 17, 2010.

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



Mary Taylor, CPA
Auditor of State

May 17, 2010

HANOVER TOWNSHIP
BUTLER COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

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

FINDING NUMBER 2009-001

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 encumbrance.

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

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

Of 30 expenditures tested for 2008 and 2009, 12 (40%) were not properly certified due to a failure to have then and now purchase orders over \$3,000 approved by the Board within 30 days. In addition, one expenditure (7%) was not properly certified by the Fiscal Officer in 2008. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2009-001
 (Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used with the proper approval by the Board for amounts over \$3,000.

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 commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2009-002

Noncompliance Citation / 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 any adjustments to appropriations made in the UAN system by the Fiscal Officer between November 2008 and December 2008 and in 2009. The following table shows the difference between approved appropriations and what was posted to the accounting records:

| Fund | Approved Appropriations | Posted to the UAN System | Difference |
|------------------------------|----------------------------|-----------------------------|------------|
| General Fund (1000) - 2008 | \$ 496,470 | \$ 762,470 | \$ 266,000 |
| Gasoline (2021) - 2008 | 209,144 | 210,844 | 1,700 |
| Road & Bridge (2031) - 2008 | 448,738 | 449,438 | 700 |
| Cemetery (2041) - 2008 | 173,675 | 240,675 | 67,000 |
| Road (2141) - 2008 | 163,632 | 164,632 | 1,000 |
| Permissive Tax (2231) - 2008 | 181,608 | 201,108 | 19,500 |
| Fire/EMS (2281) - 2008 | 580,991 | 583,691 | 2,700 |
| Fire/EMS (2281) - 2009 | 647,362 | 710,362 | 63,000 |

Failure to have all appropriations approved by the Trustees may result in misappropriation of funds and inadequate monitoring of the budget. 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 2009-003

Noncompliance Citation/Material Weakness

Ohio Revised Code, Section 5705.41 (B), prohibits a subdivision from expending money unless it has been lawfully appropriated.

Ohio Revised Code, Section 5705.42, states 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, or enters into an agreement with the subdivision for the making of any such grant or loan of money, the amount thereof is deemed appropriated for such purpose by the taxing authority of the subdivision as provided by law and shall be recorded as such by the fiscal officer of the subdivision, and is deemed in process of collection within the meaning of section 5705.41 of the Revised Code.

As further discussed in the Auditor of State Bulletin 2000-008, the Fiscal Officer shall record appropriations in accordance with the terms and conditions of the grant or project agreement. In addition, prior to recording the appropriations, Ohio Revised Code Section 5705.40 requires the legislative authority to pass a resolution amending its appropriation measure.

The Fiscal Officer did not record the Community Development Block Grant (CDBG) disbursed on behalf of the Township under the Butler County Community Development Program for the correct amount of the award, nor was the correct amount of grant money included in the appropriations by the Board of Trustees for the fiscal year 2008. However, the receipts and disbursement for the fiscal year 2008 of \$11,000 have been adjusted on the audited financial statements.

Failure to record these items can result in misleading financial statements. We recommend that the Township follow the accounting treatment as prescribed in Auditor of State Bulletin 2000-008 for on-behalf grants.

FINDING NUMBER 2009-004

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.

**FINDING NUMBER 2009-004
(Continued)**

The Township has delegated ambulance service billing processing, which is a significant accounting function, to a third-party administrator (Medicount Management). 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 does 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.

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 SAS 70 audit 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 a Tier II SAS 70 report, we recommend you only contract with a third-party administrator that will provide such a report.

We further recommend, with or without a SAS 70 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. 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. 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 Township and reported to Medicount as received to ensure all revenue is reported correctly by Medicount Management on the monthly reports.

FINDING NUMBER 2009-005

Noncompliance Citation/Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that all transactions are properly classified and recorded on the books and in the annual report to ensure that accounting records are accurate as to the type of revenue that is received, the type of disbursement made, or the fund that disbursements or transfers are made from.

FINDING NUMBER 2009-005
(Continued)

Ohio Revised Code, Section 5735.29, describes the allowable uses of motor fuel excise tax revenue such as paying the cost of constructing, widening, maintaining, and reconstructing the state highways; to maintain and repair bridges and viaducts; to purchase, erect, and maintain street and traffic signs and markers; to purchase, erect, and maintain traffic lights and signals; to pay the expense of administering and enforcing the state law relative to the registration and operation of motor vehicles. Failure to post expenditures to a proper fund may result in loss of revenue and inaccurate financial reporting. The following item was noted:

- Unallowable expenditures, mulch and the Administrator vehicle in 2008, were posted to the Gasoline Fund (Fund 2021) in the amount of \$2,090 and do not meet the criteria noted above.

Ohio Revised Code, Section 5705.10(H), states that money paid into any fund shall be used only for the purposes for which such fund is established. The following items were noted:

- Unallowable expenditures, repair of community center camera, seminar, and holiday dinner, in 2009, were posted to the Road and Bridge Fund (Fund 2031) and Cemetery Fund (Fund 2041) in the amounts of \$1,175 and \$2,126 respectively.
- Unallowable expenditures, the Administrator vehicle, seminar, t-shirts, and books, in 2008, were posted to the Road and Bridge Fund (Fund 2031), Cemetery Fund (Fund 2041), Motor Vehicle License Fund (Fund 2011), Permissive Motor Vehicle License Tax Fund (Fund 2231), and the Road Fund (Fund 2141) in the amounts of \$3,252, \$2,500, \$2,211, \$3,253, and \$2,300 respectively.

In addition to the items noted above, the Township lacked management oversight in the proper recording of intergovernmental revenue, grant revenue, encumbrances, debt transactions, and disbursements. This lack of oversight is illustrated by the following:

- One lease payment in 2009 for various vehicles was posted entirely to the Fire/EMS Fund (Fund 2281) and should have been allocated between the Fire/EMS (Fund 2281), the Road and Bridge Fund (Fund 2031) for \$3,883 and the Road Fund (Fund 2141) for \$1,290.
- The interest payment in 2009 totaling \$13,205 for the fire station renovation and construction bonds was posted to the Fire/EMS Fund (Fund 2281) and should have been paid from the Bond Retirement Fund (Fund 3201).
- The discount on debt in 2009 totaling \$53,700 was posted to Other Financing Uses and should have been posted to Interest and Fiscal Charges.
- One Reserve for Encumbrance in 2009 totaling \$13,205 was not canceled at year end and was not outstanding in the Fire/EMS Fund (Fund 2281).
- One grant item in 2009 and 2008 in the General Fund was incorrectly posted to Miscellaneous instead of Intergovernmental totaling \$1,578 and \$35,219 respectively.
- One grant item in 2008 in the Fire/EMS Fund (Fund 2281) was posted as Miscellaneous instead of Intergovernmental totaling \$2,850.
- Receipts totaling \$9,086 in the Permissive Motor Vehicle License Tax Fund (Fund 2231) in 2008 for County levied motor vehicle tax, was posted to the Taxes line item instead of the Intergovernmental line item.

**FINDING NUMBER 2009-005
(Continued)**

- Receipts totaling \$8,058 in 2008 were incorrectly recorded or moved to the Permissive Motor Vehicle License Tax Fund (Fund 2231) that should have been recorded in the Motor Vehicle License Tax Fund (Fund 2011).
- Receipts totaling \$1,854 in 2008 were incorrectly recorded in the Permissive Motor Vehicle License Tax Fund (Fund 2231) that should have been recorded in the General Fund (Fund 1000).

The financial statements and accounting records have been adjusted for the items noted in this finding.

The lack of proper management oversight could result in material misstatements relating to financial data. For guidance, the Township should utilize the Ohio Township Handbook. We recommend the Fiscal Officer use to care when posting transactions to the Township financial records.

We also recommend the Township adopt control procedures for the review of the financial activity posted to the accounting records and reported on the financial statements.

We did not receive a response from officials to the finding reported above.

**HANOVER TOWNSHIP
BUTLER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 AND 2008**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2007-001 | Ohio Rev. Code Section 505.60(A) Reimbursement of Health Insurance Premiums | Yes | Repaid August 1, 2008 |
| 2007-002 | Finding for Recovery Repaid Under Audit – Missing documentation for credit card expenditures | Yes | Repaid July 9, 2008 and August 1, 2008 |
| 2007-003 | Ohio Rev. Code Section 5705.41(B) Prohibits spending money unless appropriated | No | Not Corrected Repeated as Finding 2009-003 |
| 2007-004 | Ohio Rev. Code Section 5705.36(A)(4) appropriations exceeding unencumbered balance plus actual receipts | No | Not Corrected Repeated in the Management Letter |
| 2007-005 | Ohio Admin. Code Section 117-2-01(D) Proper recording of revenue and financial record keeping | No | Partially Corrected Repeated in Finding 2009-005 |



Mary Taylor, CPA
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
JULY 6, 2010