



**STERLING TOWNSHIP
BROWN COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2001-2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

STERLING TOWNSHIP
BROWN COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types and Nonexpendable Trust Funds - For the Year Ended December 31, 2001	3
Combined State of Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types and Nonexpendable Trust Funds - For the Year Ended December 31, 2000	4
Notes to the Financial Statements	5
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	11
Schedule of Findings	13
Schedule of Prior Audit Findings	15

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REPORT OF INDEPENDENT ACCOUNTANTS

Sterling Township
Brown County
1268 Leebe Drive
Williamsburg, Ohio 45176

To the Board of Trustees:

We have audited the accompanying financial statements of Sterling Township, Brown County, Ohio (the Township), as of and for the years ended December 31, 2001 and 2000. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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 the Township as of December 31, 2001 and 2000, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2002, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a horizontal line extending to the right.

Jim Petro
Auditor of State

May 10, 2002

**STERLING TOWNSHIP
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Nonexpendable Trust</u>	
Cash Receipts:				
Local Taxes	\$30,751	\$113,823		\$144,574
Intergovernmental	69,584	64,546		134,130
Licenses, Permits, and Fees		2,550		2,550
Earnings on Investments	4,225	564	163	4,952
Other Revenue	<u>7,230</u>	<u>200</u>		<u>7,430</u>
 Total Cash Receipts	 <u>111,790</u>	 <u>181,683</u>	 <u>163</u>	 <u>293,636</u>
Cash Disbursements:				
Current:				
General Government	47,613	3,673		51,286
Public Safety		60,000		60,000
Public Works	21,947	73,275		95,222
Health	14,657	2,470		17,127
Capital Outlay	<u>305</u>			<u>305</u>
 Total Cash Disbursements	 <u>84,522</u>	 <u>139,418</u>	 <u>0</u>	 <u>223,940</u>
 Total Receipts Over/(Under) Disbursements	 <u>27,268</u>	 <u>42,265</u>	 <u>163</u>	 <u>69,696</u>
 Fund Cash Balances, January 1	 <u>79,795</u>	 <u>104,770</u>	 <u>4,944</u>	 <u>189,509</u>
 Fund Cash Balances, December 31	 <u>\$107,063</u>	 <u>\$147,035</u>	 <u>\$5,107</u>	 <u>\$259,205</u>
 Reserve for Encumbrances, December 31	 <u>\$650</u>			 <u>\$650</u>

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

**STERLING TOWNSHIP
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Nonexpendable Trust</u>	
Cash Receipts:				
Local Taxes	\$25,178	\$106,197		\$131,375
Intergovernmental	63,697	71,061		134,758
Licenses, Permits, and Fees		1,860		1,860
Earnings on Investments	2,965	388	121	3,474
Other Revenue	118	1,500		1,618
	<u>91,958</u>	<u>181,006</u>	<u>121</u>	<u>273,085</u>
Total Cash Receipts				
	<u>91,958</u>	<u>181,006</u>	<u>121</u>	<u>273,085</u>
Cash Disbursements:				
Current:				
General Government	48,999	3,486		52,485
Public Safety		53,000		53,000
Public Works	6,223	47,474		53,697
Health	15,260	1,986		17,246
Capital Outlay	2,025			2,025
	<u>72,507</u>	<u>105,946</u>	<u>0</u>	<u>178,453</u>
Total Cash Disbursements				
	<u>72,507</u>	<u>105,946</u>	<u>0</u>	<u>178,453</u>
Total Receipts Over/(Under) Disbursements	<u>19,451</u>	<u>75,060</u>	<u>121</u>	<u>94,632</u>
Fund Cash Balances, January 1	<u>60,344</u>	<u>29,710</u>	<u>4,823</u>	<u>94,877</u>
Fund Cash Balances, December 31	<u>\$79,795</u>	<u>\$104,770</u>	<u>\$4,944</u>	<u>\$189,509</u>
Reserve for Encumbrances, December 31	<u>\$136</u>	<u>\$89</u>		<u>\$225</u>

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

**STERLING TOWNSHIP
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Sterling Township, Brown County, Ohio (the Township), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides general governmental services, including road and bridge maintenance and cemetery maintenance. The Township contracts with the Village of Mount Orab and Williamsburg Township for fire services and emergency medical services.

The Township's management believes these financial statements present all activities for which the Township is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

C. Cash Deposits

The Township maintains all funds in an interest-bearing checking account.

D. Fund Accounting

The Township uses fund accounting to segregate cash that is restricted as to use. The Township classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from 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 construction, 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.

**STERLING TOWNSHIP
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cemetery Fund

This fund receives tax money and sales money for maintaining and repairing Township cemeteries.

Fire Levy Fund

This fund receives local taxes and revenues from contracts with other political subdivisions to provide fire protection and maintain fire apparatus and appliances.

3. Fiduciary Funds (Non Expendable Trust)

These funds are used to account for resources restricted by legally binding trust agreements and funds for which the Township is acting in an agency capacity. The Township had the following significant non-expendable trust fund:

Cemetery Bequest Fund

The Township earns interest from the interest bearing checking each month.

E. Budgetary Process

The Ohio Revised Code requires that each fund, except non expendable trust funds, 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. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not encumber all commitments as required by Ohio law. However there were no material unrecorded encumbrances at December 31, 2001 and 2000.

A summary of 2001 and 2000 budgetary activity appears in Note 3.

**STERLING TOWNSHIP
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. EQUITY IN POOLED CASH AND DEPOSITS

The Township maintains a cash deposits pool used by all funds. The Ohio Revised Code prescribes allowable deposits. The carrying amount of deposits at December 31 was as follows:

	<u>2001</u>	<u>2000</u>
Demand deposits	<u>\$259,205</u>	<u>\$189,509</u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$74,125	\$111,790	\$37,665
Special Revenue	<u>170,300</u>	<u>181,683</u>	<u>11,383</u>
Total	<u>\$244,425</u>	<u>\$293,473</u>	<u>\$49,048</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$131,280	\$85,172	\$ 46,108
Special Revenue	<u>211,889</u>	<u>139,418</u>	<u>72,471</u>
Total	<u>\$343,169</u>	<u>\$224,590</u>	<u>\$118,579</u>

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$75,100	\$91,958	\$16,858
Special Revenue	<u>172,950</u>	<u>181,006</u>	<u>8,056</u>
Total	<u>\$248,050</u>	<u>\$272,964</u>	<u>\$24,914</u>

**STERLING TOWNSHIP
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$122,334	\$72,643	\$49,691
Special Revenue	182,949	106,035	76,914
Total	\$305,283	\$178,678	\$126,605

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Township.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Township.

5. RETIREMENT SYSTEMS

The Township's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS are cost-sharing, multiple-employer plans. This plan provides retirement benefits, including post retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2001 and 2000, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2001 and from January 1, 2000 through June 30, 2000. PERS temporarily reduced the employer contribution rate to 8.13% effective July 1, 2000 through December 31, 2000. The Township has paid all contributions required through December 31, 2001.

6. RISK MANAGEMENT

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 insurance for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**STERLING TOWNSHIP
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

6. RISK MANAGEMENT (Continued)

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation will reinsure.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

OTARMA retains property risks including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

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

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:

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$23,703,776	\$22,684,383
Liabilities	<u>9,379,003</u>	<u>8,924,977</u>
Retained earnings	<u>\$14,324,773</u>	<u>\$13,759,406</u>
 <u>Property Coverage</u>	 <u>2001</u>	 <u>2000</u>
Assets	\$5,011,131	\$4,156,784
Liabilities	<u>647,667</u>	<u>497,831</u>
Retained earnings	<u>\$4,363,464</u>	<u>\$3,658,953</u>

The Township also contracts with a private carrier to provide health, life, and cancer insurance for eligible elected officials who accept the coverage.

7. COMPLIANCE

The Township did not competitively bid all contracts required by Ohio Law.

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STATE OF OHIO
OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Sterling Township
Brown County
1268 Leebe Drive
Williamsburg, Ohio 45176

To the Board of Trustees:

We have audited the accompanying financial statements of Sterling Township, Brown County, Ohio (the Township), as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated May 10, 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2001-40408-001 through 2001-40408-002. We also noted a certain immaterial instance of noncompliance that we have reported to management of the Township in a separate letter dated May 10, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2001-40408-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated May 10, 2002.

Sterling Township
Brown County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

May 10, 2002

**STERLING TOWNSHIP
BROWN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000**

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

FINDING NUMBER 2001-40408-001

Material Noncompliance

Ohio Rev. Code, Section 5575.01, requires that contracts for maintenance or repair of Township roads be let by competitive bidding when the amount of the repair or maintenance exceeds \$15,000. In 2000 and 2001, the Township paid Brown County Asphalt Company \$34,651 and \$89,126 respectively, for maintenance and repair of Township roads in amounts which exceeded the \$15,000 limit without competitive bidding. We recommend the Township follow competitive bidding procedures on all road maintenance and repair projects which exceed \$15,000.

FINDING NUMBER 2001-40408-002

Material Noncompliance/Reportable Condition

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

This Section also provides for two exceptions to the above requirements:

- A. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Trustees may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000 dollars, the Clerk may authorize payment through a Then and Now Certificate without affirmation of the Board of Trustees, if such expenditure is otherwise valid.

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

Contrary to the above requirement, the availability of funds was not certified for 34% of the items tested for 2001 and 2000. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash fund balances. Therefore, we recommend the Township obtain approved purchase orders, which contain the Treasurer's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

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**STERLING TOWNSHIP
BROWN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001 AND 2000**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-40408-001	Contracts not competitively bid.	No	Clerk stated that the Trustees will comply in the future. Reissued as finding # 2001-40408-001
1999-40408-002	Fund not established for Issue II money.	Yes	Township did not receive any Issue II money during the audit period.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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STERLING TOWNSHIP

BROWN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 18, 2002**