



Mary Taylor, CPA  
Auditor of State



WASHINGTON TOWNSHIP  
PREBLE COUNTY

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Mary Taylor, CPA  
Auditor of State

Washington Township  
Preble County  
3345 Eaton New Hope Road  
Eaton, Ohio 45320

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

September 10, 2009

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Washington Township  
Preble County  
3345 Eaton New Hope Road  
Eaton, Ohio 45320

To the Board of Trustees:

We have audited the accompanying financial statements of Washington Township, Preble County, Ohio (the Township), as of and for the years ended December 31, 2008 and 2007. 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, 2008 and 2007 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, 2008 and 2007, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Washington Township, Preble County, as of December 31, 2008 and 2007, 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 September 10, 2009, 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

September 10, 2009



**WASHINGTON TOWNSHIP  
PREBLE 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<br/>Revenue</u> | <u>Capital<br/>Projects</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|--|------------------------|----------------------------|-----------------------------|---|
| <b>Cash Receipts:</b>                    |                        |                            |                             |   |
| Property and Other Local Taxes           | \$43,222               | \$197,156                  | \$0                         | \$240,378                               |
| Licenses, Permits, and Fees              | 2,565                  |                            |                             | 2,565                                   |
| Intergovernmental                        | 67,918                 | 135,456                    | 226,944                     | 430,318                                 |
| Earnings on Investments                  | 27                     | 17                         |                             | 44                                      |
| Miscellaneous                            |                        | 15,995                     |                             | 15,995                                  |
| <b>Total Cash Receipts</b>               | <u>113,732</u>         | <u>348,624</u>             | <u>226,944</u>              | <u>689,300</u>                          |
| <b>Cash Disbursements:</b>               |                        |                            |                             |   |
| Current:                                 |                        |                            |                             |   |
| General Government                       | 81,140                 |                            |                             | 81,140                                  |
| Public Safety                            | 25,449                 | 75,530                     |                             | 100,979                                 |
| Public Works                             |                        | 208,275                    |                             | 208,275                                 |
| Health                                   |                        | 23,501                     |                             | 23,501                                  |
| Capital Outlay                           |                        |                            | 226,944                     | 226,944                                 |
| <b>Total Cash Disbursements</b>          | <u>106,589</u>         | <u>307,306</u>             | <u>226,944</u>              | <u>640,839</u>                          |
| <b>Total Receipts Over Disbursements</b> | <u>7,143</u>           | <u>41,318</u>              | <u>0</u>                    | <u>48,461</u>                           |
| <b>Fund Cash Balances, January 1</b>     | <u>30,464</u>          | <u>169,896</u>             | <u>0</u>                    | <u>200,360</u>                          |
| <b>Fund Cash Balances, December 31</b>   | <u><u>\$37,607</u></u> | <u><u>\$211,214</u></u>    | <u><u>\$0</u></u>           | <u><u>\$248,821</u></u>                 |

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

**WASHINGTON TOWNSHIP  
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

|  | <b>General</b>      | <b>Special<br/>Revenue</b> | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|--|---------------------|----------------------------|---|
| <b>Cash Receipts:</b>  |                     |                            |   |
| Property and Other Local Taxes   | \$44,902            | \$205,041                  | \$249,943                               |
| Licenses, Permits, and Fees  | 1,805               |                            | 1,805                                   |
| Intergovernmental  | 91,378              | 128,952                    | 220,330                                 |
| Earnings on Investments  | 371                 | 423                        | 794                                     |
| Miscellaneous  | 53                  | 32,274                     | 32,327                                  |
| <br>Total Cash Receipts  | <br>138,509         | <br>366,690                | <br>505,199                             |
| <b>Cash Disbursements:</b>   |                     |                            |   |
| Current:   |                     |                            |   |
| General Government   | 99,499              |                            | 99,499                                  |
| Public Safety  | 14,397              | 76,735                     | 91,132                                  |
| Public Works   |                     | 189,394                    | 189,394                                 |
| Health   | 12,933              | 24,380                     | 37,313                                  |
| <br>Total Cash Disbursements   | <br>126,829         | <br>290,509                | <br>417,338                             |
| <br>Total Receipts Over Disbursements  | <br>11,680          | <br>76,181                 | <br>87,861                              |
| <b>Other Financing Receipts / (Disbursements):</b>   |                     |                            |   |
| Transfers-In   |                     | 3,494                      | 3,494                                   |
| Transfers-Out  |                     | (3,494)                    | (3,494)                                 |
| <br>Total Other Financing Receipts / (Disbursements)   | <br>0               | <br>0                      | <br>0                                   |
| <br>Excess of Cash Receipts and Other Financing<br>Receipts Over Cash Disbursements<br>and Other Financing Disbursements | <br>11,680          | <br>76,181                 | <br>87,861                              |
| <br>Fund Cash Balances, January 1  | <br>18,784          | <br>93,715                 | <br>112,499                             |
| <br><b>Fund Cash Balances, December 31</b>   | <br><b>\$30,464</b> | <br><b>\$169,896</b>       | <br><b>\$200,360</b>                    |

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

**WASHINGTON TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007**

**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 Washington Township, Preble 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 City of Eaton to provide fire and ambulance services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. 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. Cash Deposits**

The Township only has a checking account.

**D. Fund Accounting**

The Township uses fund accounting to segregate cash and deposits 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.

**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:

**WASHINGTON TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

Road District 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.

**3. Capital Project Fund**

This fund accounts 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:

Issue II Fund - The Township received an on-behalf grant from the State of Ohio for the repair of Winters Road.

**E. Budgetary Process**

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

**1. Appropriations**

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

**2. Estimated Resources**

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

**3. Encumbrances**

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

A summary of 2008 and 2007 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.

**WASHINGTON TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**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 Cash and Deposits**

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

|                 |           |           |
|-----------------|-----------|-----------|
|                 | 2008      | 2007      |
| Demand deposits | \$248,821 | \$200,360 |

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

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2008 and 2007 follows:

| 2008 Budgeted vs. Actual Receipts |                      |                    |           |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance  |
| General                           | \$70,000             | \$113,732          | \$43,732  |
| Special Revenue                   | 370,780              | 348,624            | (22,156)  |
| Capital Projects                  | 0                    | 226,944            | 226,944   |
| Total                             | \$440,780            | \$689,300          | \$248,520 |

| 2008 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |           |
|---|----------------------------|---------------------------|-----------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance  |
| General   | \$105,869                  | \$106,589                 | (\$720)   |
| Special Revenue                                       | 535,270                    | 307,306                   | 227,964   |
| Capital Projects                                      | 0                          | 226,944                   | (226,944) |
| Total   | \$641,139                  | \$640,839                 | \$300     |

**WASHINGTON TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**3. Budgetary Activity (Continued)**

| 2007 Budgeted vs. Actual Receipts |                      |                    |          |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance |
| General                           | \$112,578            | \$138,509          | \$25,931 |
| Special Revenue                   | 349,000              | 370,184            | 21,184   |
| Total                             | \$461,578            | \$508,693          | \$47,115 |

| 2007 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |            |
|---|----------------------------|---------------------------|------------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance   |
| General   | \$98,784                   | \$126,829                 | (\$28,045) |
| Special Revenue                                       | 442,472                    | 294,003                   | 148,469    |
| Total   | \$541,256                  | \$420,832                 | \$120,424  |

Contrary to Ohio law:

- expenditures exceeded appropriations in the General Fund for 2007 and 2008 and the Capital Projects Fund for 2008, expenditures exceeded appropriations for one line-item for the Road & Bridge Fund for 2008;
- appropriations exceeded estimated resources for the Fire Fund and Ambulance Fund for 2007, and for the General Fund, Road and Bridge Fund, and Road District Fund for 2008;
- appropriations exceeded available resources for the Motor Vehicles License Tax Fund and the Rire Fund at December 31, 2007, and the Road and Bridge Fund, Cemetery Fund, Road District Fund, Fire Fund, and Ambulance Fund at December 31, 2008.

**4. Property Tax**

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

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

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

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

**WASHINGTON TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**5. Debt**

Debt outstanding at December 31, 2008 was as follows:

|                         | Principal | Interest Rate |
|-------------------------|-----------|---------------|
| Ford Credit Truck Lease | \$10,445  | 6.35%         |

The Ford Credit lease purchase agreement was obtained in 2005 in the amount of \$32,320 to purchase a new truck. The lease will be repaid in semi-annual installments of \$3,705, including interest, over five years. The Township will have an option at the termination of the lease to purchase the truck for \$1. The lease is collateralized by the truck.

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

|                          | Ford Credit<br>Truck Lease |
|--------------------------|----------------------------|
| Year ending December 31: |                            |
| 2009                     | 7,410                      |
| 2010                     | 3,705                      |
| Total                    | \$11,115                   |

**6. 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 2008, OPERS members contributed 10 percent of their gross salaries. The Township contributed an amount equaling 14 percent of participants' gross salaries. For 2007, OPERS members contributed 9.5 percent of their gross salaries. The Township contributed an amount equaling 13.85 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2008.

**7. Risk Management**

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. 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.

**WASHINGTON TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**7. Risk Management (Continued)**

Casualty Coverage

For an occurrence prior to January 1, 2006, OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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.

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



**WASHINGTON TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**7. Risk Management (Continued)**

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, 2007 and 2006 (the latest information available):

|             | <u>2007</u>         | <u>2006</u>         |
|-------------|---------------------|---------------------|
| Assets      | \$43,210,703        | \$42,042,275        |
| Liabilities | <u>(13,357,837)</u> | <u>(12,120,661)</u> |
| Net Assets  | <u>\$29,852,866</u> | <u>\$29,921,614</u> |

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, 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 \$7,813. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

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.

| <b><u>Contributions to OTARMA</u></b> |         |
|---------------------------------------|---------|
| 2006                                  | \$6,546 |
| 2007                                  | \$4,860 |
| 2008                                  | \$4,510 |

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.

**WASHINGTON TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007  
(Continued)**

**8. Noncompliance**

Contrary to Ohio Revised Code Section 505.24(C), the Township paid the Trustees from funds other than the General Fund during the audit period. The Township did not maintain documentation to support charging the Trustees' salaries to these funds.



# 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*

Washington Township  
Preble County  
3345 Eaton New Hope Road  
Eaton, Ohio 45320

To the Township Board of Trustees:

We have audited the financial statements of the Washington Township, Preble County, Ohio (the Township), as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated September 10, 2009, 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 the 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 expressing our opinion on the financial statements, but not to opine 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider findings 2008-001, 2008-005, and 2008-007 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiencies described above are also material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated September 10, 2009.

#### **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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-002 through 2008-004, 2008-006 and 2008-007.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated September 10, 2009.

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



**Mary Taylor, CPA**  
Auditor of State

September 10, 2009

**WASHINGTON TOWNSHIP  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2008 AND 2007**

|  |
|--|
| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|--|

**FINDING NUMBER 2008-001**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Township lacks management oversight in the posting of receipts and expenditures. This lack of oversight is illustrated by the following:

- For 2007, General Fund Tax Revenue was overstated by \$5,562; Licenses, Permits, and Fees Revenue was overstated by \$298 and Intergovernmental Revenue was understated by \$5,926.
- For 2007, Road & Bridge Fund Tax Revenue was overstated by \$12,633 and Intergovernmental Revenue was understated by \$4,697.
- For 2007, Gas Tax Fund Intergovernmental Revenue was understated by \$7,920.
- For 2007, Cemetery Fund Tax Revenue was overstated and Intergovernmental Revenue was understated by \$2,500.
- For 2007, Road District Fund Tax Revenue was overstated by \$7,504 and Intergovernmental Revenue was understated by \$7,454.
- For 2007, Fire Fund Tax Revenue were overstated by \$4,284 and Intergovernmental Revenue was understated by \$4,284.
- For 2007, Ambulance Fund Miscellaneous Revenue was understated by \$32,274, Intergovernmental Revenue was overstated by \$27,876, and Tax Revenue was overstated by \$4,398.
- For 2008, General Fund Tax Revenue was overstated by \$315 and Intergovernmental Revenue was understated by \$268.
- For 2008, Road & Bridge Fund Tax Revenue was overstated by \$161 and Intergovernmental Revenue was understated by \$117.
- For 2008, Cemetery Fund Tax Revenue was overstated by \$161 and Intergovernmental Revenue was understated by \$216.
- For 2008, Road District Fund Tax Revenue was overstated by \$490 and Intergovernmental Revenue was understated by \$458.
- For 2008, Fire Fund Tax Revenue was overstated and Intergovernmental Revenue was understated by \$185.
- For 2008, Ambulance Fund Tax Revenue was overstated by \$185, Intergovernmental revenue was overstated by \$15,742, and Miscellaneous Revenue was understated by \$15,995.

**FINDING NUMBER 2008-001**  
**(Continued)**

- For 2008, the Township did not recognize Capital Projects Issue II Grant on-behalf receipts and disbursements of \$226,944.
- For 2008, the Township posted \$9,500 to the Motor Vehicles License Tax Fund instead of the General Fund for the fire contract with the City of Eaton.

Adjustments have been posted to the Township's accounting records and financial statements to correct these misclassifications.

Failure to properly post revenues and expenditures can result in inaccurate records, cause the Township to misappropriate funds, and lead to expenditures for improper public purpose. To improve accountability and record keeping, we recommend that the Township properly post all expenditures and all county and state revenue receipts to the correct funds and line items. The Fiscal Officer should review receipts and expenditures posted to the ledgers for accuracy. Comparisons between years may aid in the determination if the Fiscal Officer has properly posted a receipt or expenditure.

**FINDING NUMBER 2008-002**

**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.

**FINDING NUMBER 2008-002  
 (Continued)**

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.

The Township did utilize Blanket Certificates and Then & Now Certificates. 31% of the transactions tested were not certified by the Fiscal Officer at the time the commitment was incurred. 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 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. The Fiscal Officer should mark the date on invoices received which lack a date.

We recommend the Township certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**FINDING NUMBER 2008-003**

**Noncompliance Citation**

**Ohio Revised Code, Section 5705.39**, provides that total appropriations from each fund shall not exceed the total estimated revenue. Appropriations exceeded estimated resources as follows:

| Year | Fund          | Estimated Resources | Appropriations | Variance   |
|------|---------------|---------------------|----------------|------------|
| 2007 | Fire          | \$30,354            | \$49,069       | (\$18,715) |
| 2007 | Ambulance     | 93,972              | 94,547         | (575)      |
| 2008 | General       | 100,464             | 105,869        | (5,405)    |
| 2008 | Road & Bridge | 69,643              | 77,579         | (7,936)    |
| 2008 | Road District | 73,511              | 73,561         | (50)       |

Failure to limit appropriations to total estimated revenue may result in the Township incurring obligations that exceed their available resources and negative fund balances. We recommend that the Township limit appropriations to the total estimated revenue per fund.

**FINDING NUMBER 2008-004**

**Noncompliance Citation**

**Ohio Revised Code, Section 5705.41(B)**, states that no taxing authority shall make any expenditures of money unless it has been appropriated as provided in such chapter. Expenditures and outstanding encumbrances exceeded appropriations as follows:

| Year | Fund-Line Item                       | Expenditures | Appropriations | Variance |
|------|--------------------------------------|--------------|----------------|----------|
| 2007 | General Fund-Trustee Salaries        | \$13,131     | \$6,566        | \$6,565  |
| 2007 | General Fund-Other Expenses          | 47,960       | 21,179         | 26,781   |
| 2008 | General Fund-Trustee Salaries        | 14,603       | 10,607         | 3,996    |
| 2008 | Road & Bridge Fund-Insurance         | 27,799       | 19,772         | 8,027    |
| 2008 | Capital Projects Fund-Capital Outlay | 226,944      | 0              | 226,944  |

Failure to limit expenditures to appropriations may result in overspending and negative fund balances. We recommend that the Township limit expenditures to the appropriated amount.

**FINDING NUMBER 2008-005**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

Appropriations were not properly posted to the accounting system as follows:

| Year | Fund    | Appropriations per Township Resolution | Appropriations posted to Accounting System | Variance   |
|------|---------|--|--|------------|
| 2007 | General | \$98,784                               | \$131,362                                  | (\$32,578) |

Estimated Receipts for 2007 and 2008 were not posted to the Accounting System until June of each year. Estimated Receipts were not properly posted to the accounting system as follows:

| Year | Fund                      | Estimated Receipts per Amended Certificate | Estimated Receipts posted to Accounting System | Variance |
|------|---------------------------|--|--|----------|
| 2007 | General                   | \$112,578                                  | \$110,541                                      | \$2,037  |
| 2007 | Motor Vehicle License Tax | 18,000                                     | 17,552   | 448      |
| 2007 | Gasoline Tax              | 88,000                                     | 85,028   | 2,972    |
| 2007 | Road & Bridge             | 40,000                                     | 44,256   | (4,256)  |
| 2007 | Cemetery                  | 22,000                                     | 23,445   | (1,445)  |
| 2007 | Road District             | 65,000                                     | 70,273   | (5,273)  |
| 2007 | Fire                      | 38,000                                     | 41,116   | (3,116)  |
| 2007 | Permissive                | 15,000                                     | 14,265   | 735      |
| 2007 | Ambulance                 | 63,000                                     | 74,922   | (11,922) |



**FINDING NUMBER 2008-005  
 (Continued)**

| <b>Year</b> | <b>Fund</b>               | <b>Estimated Receipts per Amended Certificate</b> | <b>Estimated Receipts posted to Accounting System</b> | <b>Variance</b> |
|-------------|---------------------------|---|---|-----------------|
| 2008        | General                   | 70,000  | 83,215  | (3,215)         |
| 2008        | Motor Vehicle License Tax | 17,552  | 17,203  | 349             |
| 2008        | Gasoline Tax              | 85,028  | 90,015  | (4,987)         |
| 2008        | Road & Bridge             | 50,000  | 48,800  | 1,200           |
| 2008        | Cemetery                  | 23,000  | 23,800  | (800)           |
| 2008        | Road District             | 68,000  | 73,000  | (5,000)         |
| 2008        | Fire                      | 40,000  | 43,250  | (3,250)         |
| 2008        | Ambulance                 | 73,000  | 75,750  | (2,750)         |

Failure to timely and accurately post budgetary amounts can lead to improper spending and improper monitoring of budgetary activity. We recommend the Township timely and accurately post all budgetary information to their accounting system.

**FINDING NUMBER 2008-006**

**Noncompliance Citation**

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

Actual receipts were less than estimated receipts and the deficiency reduced available resources below the current level of appropriation as follows:

| <b>Year</b> | <b>Fund</b>               | <b>Appropriations</b> | <b>Available Resources</b> | <b>Variance</b> |
|-------------|---------------------------|-----------------------|----------------------------|-----------------|
| 2007        | Motor Vehicle License Tax | \$24,372              | \$23,652                   | \$720           |
| 2007        | Fire                      | 49,069                | 32,062                     | 17,007          |
| 2008        | Road & Bridge             | 77,579                | 61,477                     | 16,102          |
| 2008        | Cemetery                  | 23,982                | 23,658                     | 324             |
| 2008        | Road District             | 73,561                | 72,946                     | 615             |
| 2008        | Fire                      | 40,539                | 39,799                     | 740             |
| 2008        | Ambulance                 | 132,053               | 115,668                    | 16,385          |

Failure to properly obtain amended certificates when the amount of deficiency will reduce available resources below the current level of appropriation can result in overspending and negative fund balances. We recommend that the Township monitor estimated and actual receipts and obtain amendments when required.

**FINDING NUMBER 2008-007**

**Material Weakness/Noncompliance**

**Ohio Revised Code, Section 505.24(C)**, sets forth the method by which township trustees' compensation should be allocated. This section is amplified by Ohio Attorney General (OAG) Opinion 2004-036. This section requires compensation of a township trustee must be paid from the Township General Fund or from such other township funds, in such proportions as the Board may specify by resolution. In addition, trustees are to establish administrative procedures to document the proportionate amount of trustees' salaries chargeable to other township funds based on the portion of time spent on matters related to the services rendered. The "administrative procedures" can be timesheets or a similar method of record keeping, as long as the trustees document all time spent on township business and the type of service(s) performed, in a manner similar to trustees paid per diem compensation. The requirements of Ohio Rev. Code Section 505.24(C) were noted in the Washington Township Management Letter for the years ending December 31, 2006 and 2005, which was released on July 18, 2007.

The Township paid the Trustees from funds other than the General Fund during the audit period. The Township did not maintain documentation to support charging the Trustees' salaries to these restricted funds. For 2007 the Township charged \$1,824 to the Gasoline Tax Fund and \$3,647 to the Motor Vehicle License Tax Fund. The accompanying financial statements include fund balance adjustments for these unsupported charges. The Township's accounting records have also been adjusted to reflect the necessary adjustments.

Failure to document the fund to which the Township will charge the Trustees' salaries will result in fund balance adjustments. We recommend the Township adopt formal administrative procedures regarding documenting the time spent by Trustees on various duties and the funds to which each task should be charged. The Township should adopt a resolution specifying that the Township will allocate salaries based upon documentation submitted by each Trustee or all salaries will be paid from the General Fund.

**We did not receive a response from Officials on the findings reported above.**

**WASHINGTON TOWNSHIP  
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2008 AND 2007**

| Finding Number | Finding Summary   | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b> |
|----------------|---|------------------|--|
| 2006-001       | Finding for recovery repaid under audit against Charles Christman and Timothy Fligor. | Yes              |  |
| 2006-002       | Ohio Revised Code, Section 5705.41(D)(1), failure to properly certify funds.          | No               | Not corrected-Reissued as Finding 2008-002.  |
| 2006-003       | Failure to properly post expenditures to the correct funds.                           | No               | Not corrected-Reissued as Finding 2008-001.  |





Mary Taylor, CPA  
Auditor of State

**WASHINGTON TOWNSHIP**

**PREBLE 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  
SEPTEMBER 29, 2009**