



Dave Yost • Auditor of State



**GRATIS TOWNSHIP  
PREBLE COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Cover Letter .....	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2010.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balance – Private Purpose Trust - For the Year Ended December 31, 2010.....	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2009.....	7
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balance – Private Purpose Trust - For the Year Ended December 31, 2009.....	8
Notes to the Financial Statements .....	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	17
Schedule of Findings .....	19
Schedule of Prior Audit Findings .....	21

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# Dave Yost • Auditor of State

Gratis Township  
Preble County  
8517 Gratis-Jacksonburg Road  
Camden, Ohio 45311

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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**Dave Yost**  
Auditor of State

May 3, 2011

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Gratis Township  
Preble County  
8517 Gratis-Jacksonburg Road  
Camden, Ohio 45311

To the Board of Trustees:

We have audited the accompanying financial statements of Gratis Township, Preble County, Ohio (the Township), as of and for the years ended December 31, 2010 and 2009. 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(A) mandates the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009 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, 2010 and 2009, 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 and reserves for encumbrances of Gratis Township, Preble County, Ohio as of December 31, 2010 and 2009, 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 3, 2011, 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.



**Dave Yost**  
Auditor of State

May 3, 2011



**GRATIS 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, 2010**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$27,887	\$263,334	\$0	\$291,221
Charges for Services		28,277		28,277
Licenses, Permits, and Fees		43,710		43,710
Intergovernmental	31,681	141,556		173,237
Earnings on Investments	1,709	516		2,225
Miscellaneous	12,507	13,875		26,382
<b>Total Cash Receipts</b>	<u>73,784</u>	<u>491,268</u>	<u>0</u>	<u>565,052</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	51,624	176,066		227,690
Public Safety		28,277		28,277
Public Works		186,271		186,271
Health	10,158	68,122		78,280
Capital Outlay	4,752	2,625	45,700	53,077
Debt Service:				
Redemption of Principal		14,115		14,115
Interest and Other Fiscal Charges		1,670		1,670
<b>Total Cash Disbursements</b>	<u>66,534</u>	<u>477,146</u>	<u>45,700</u>	<u>589,380</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>7,250</u>	<u>14,122</u>	<u>(45,700)</u>	<u>(24,328)</u>
<b>Other Financing (Disbursements):</b>				
Other Debt Proceeds			45,700	45,700
<b>Total Other Financing (Disbursements)</b>	<u>0</u>	<u>0</u>	<u>45,700</u>	<u>45,700</u>
Excess of Cash Receipts Over Cash Disbursements and Other Financing Disbursements	7,250	14,122	0	21,372
Fund Cash Balances, January 1	73,866	182,694	0	256,560
<b>Fund Cash Balances, December 31</b>	<u><b>\$81,116</b></u>	<u><b>\$196,816</b></u>	<u><b>\$0</b></u>	<u><b>\$277,932</b></u>
Reserve for Encumbrances, December 31	<u>\$576</u>	<u>\$2,337</u>	<u>\$0</u>	<u>\$2,913</u>

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

GRATIS TOWNSHIP  
PREBLE COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - PRIVATE PURPOSE TRUST  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Private Purpose Trust</u>
<b>Non-Operating Cash Receipts:</b>	
Earnings on Investments	<u>\$89</u>
Total Non-Operating Cash Receipts	<u>89</u>
Net Receipts Over Disbursements	89
Fund Cash Balances, January 1	<u>4,724</u>
<b>Fund Cash Balances, December 31</b>	<b><u><u>\$4,813</u></u></b>

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

**GRATIS 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, 2009**

	<b>General</b>	<b>Special Revenue</b>	<b>Totals (Memorandum Only)</b>
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$27,611	\$259,462	\$287,073
Charges for Services		65,792	65,792
Licenses, Permits, and Fees		40,875	40,875
Intergovernmental	39,027	152,065	191,092
Earnings on Investments	1,023	408	1,431
Miscellaneous	8,370	19,790	28,160
 Total Cash Receipts	 76,031	 538,392	 614,423
<b>Cash Disbursements:</b>			
Current:			
General Government	36,652	184,135	220,787
Public Safety		65,792	65,792
Public Works		163,075	163,075
Health	10,476	68,017	78,493
Capital Outlay	1,435	3,375	4,810
Debt Service:			
Redemption of Principal		23,662	23,662
Interest and Other Fiscal Charges		2,927	2,927
 Total Cash Disbursements	 48,563	 510,983	 559,546
 Total Receipts Over Disbursements	 27,468	 27,409	 54,877
 Fund Cash Balances, January 1	 46,398	 155,285	 201,683
 <b>Fund Cash Balances, December 31</b>	 <b>\$73,866</b>	 <b>\$182,694</b>	 <b>\$256,560</b>
 Reserve for Encumbrances, December 31	 \$505	 \$2,123	 \$2,628

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

GRATIS TOWNSHIP  
PREBLE COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - PRIVATE PURPOSE TRUST  
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Private Purpose Trust</u>
<b>Non-Operating Cash Receipts:</b>	
Earnings on Investments	<u>\$85</u>
Total Non-Operating Cash Receipts	<u>85</u>
<b>Non-Operating Cash Disbursements:</b>	
Other Non-Operating Cash Disbursements	<u>87</u>
Total Non-Operating Cash Disbursements	<u>87</u>
Net Receipts (Under) Disbursements	(2)
Fund Cash Balances, January 1	<u>4,726</u>
<b>Fund Cash Balances, December 31</b>	<b><u><u>\$4,724</u></u></b>

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

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**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 Gratis 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 and cemetery maintenance. The Township contracts with the Village of Gratis to provide fire and ambulance services and the West Elkton Gratis Township Fire District to provide fire services.

The Township participates in the Ohio Township Association Risk Management Authority public entity risk pool. Note 7 to the financial statements provides additional information for this entity.

Public Entity Risk Pool:

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.

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 and Deposits**

The Township values certificates of deposit at cost.

**D. Fund Accounting**

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

**1. General Fund**

The General Fund reports all financial resources except those required to be accounted for in another fund.

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(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.

Fire Fund - This fund receives property tax money to pay for fire services for Township residents.

**3. Debt Service Fund**

This fund accounts for resources the Township accumulates to pay bond and note debt.

The Township's Debt Service Fund was only used in 2010 for the purpose of accounting for a dump truck purchase.

**4. Private Purpose Trust Fund**

Fiduciary funds include private purpose trust funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Township's own programs.

The Township's private purpose trust fund is a cemetery bequest fund from which interest earned is used for care of specific grave sites.

**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. 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.

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

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

**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 required by Ohio law.

A summary of 2010 and 2009 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 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:

	2010	2009
Demand deposits	\$278,345	\$256,884
Certificates of deposit	4,400	4,400
Total deposits	282,745	261,284

**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, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$43,900	\$73,784	\$29,884
Special Revenue	482,600	491,268	8,668
Debt Service	45,700	45,700	0
Trust	80	89	9
Total	\$572,280	\$610,841	\$38,561

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**3. Budgetary Activity (Continued)**

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$75,270	\$67,110	\$8,160
Special Revenue	596,075	479,483	116,592
Debt Service	45,700	45,700	0
Trust	300	0	300
Total	<u>\$717,345</u>	<u>\$592,293</u>	<u>\$125,052</u>

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$40,000	\$76,031	\$36,031
Special Revenue	497,800	538,392	40,592
Trust	120	85	(35)
Total	<u>\$537,920</u>	<u>\$614,508</u>	<u>\$76,588</u>

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$79,070	\$49,068	\$30,002
Special Revenue	620,596	513,106	107,490
Trust	200	87	113
Total	<u>\$699,866</u>	<u>\$562,261</u>	<u>\$137,605</u>

**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.



**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**5. Debt**

Debt outstanding at December 31, 2010 was as follows:

	Principal	Interest Rate
Tractor Lease	\$14,927	4.5%
Dump Truck Loan	45,700	4.5%
Total	\$60,627	

The Township retired the loan on the backhoe lease in 2009.

The Tractor Lease is for the lease/purchase of a Holland Tractor. The lease was entered into on March 1, 2008. The original lease purchase amount was \$42,390 and is being repaid in annual installments of \$15,785. The Township will have an option at the end of the 3 years to purchase the tractor for \$1.

The Dump Truck Loan is for the purchase of a Ford Dump Truck. The loan was entered into on April 2, 2010. The original purchase amount was \$45,700 and is being repaid in four annual installments of \$11,425, which includes interest, with a final principal payment of \$5,620 payable at the conclusion of the loan period.

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

	Tractor Lease	Dump Truck Loan
Year ending December 31:		
2011	\$15,785	\$11,425
2012		11,425
2013		11,425
2014		17,045
Total	\$15,785	\$51,320

**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 2010 and 2009, 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, 2010.

**7. Risk Management**

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

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**7. Risk Management (Continued)**

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

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of OTARMA and provides underwriting, claims, loss control, risk management, and reinsurance services for OTARMA. OTARMA is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2009, OTARMA retained \$350,000 for casualty claims and \$150,000 for property claims.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2009 and 2008 (the latest information available):

	<u>2009</u>	<u>2008</u>
Assets	\$38,982,088	\$40,737,740
Liabilities	<u>(12,880,766)</u>	<u>(12,981,818)</u>
Net Assets	<u>\$26,101,322</u>	<u>\$27,755,922</u>

At December 31, 2009 and 2008, respectively, the liabilities above include approximately \$12.0 and \$12.1 million of estimated incurred claims payable. The assets above also include approximately \$11.5 and \$10.9 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2009 and 2008, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2009, the Township's share of these unpaid claims collectible in future years is approximately \$6,000.

**GRATIS TOWNSHIP  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**7. Risk Management (Continued)**

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>	
<b><u>2009</u></b>	<b><u>2008</u></b>
\$5,379	\$4,998

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

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# Dave Yost • Auditor of State

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

Gratis Township  
Preble County  
8517 Gratis-Jacksonburg Road  
Camden, Ohio 45311

To the Board of Trustees:

We have audited the financial statements of Gratis Township, Preble County, Ohio (the Township), as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated May 3, 2011, 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 because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. We 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.

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 combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

### **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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

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 3, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

**Dave Yost**  
Auditor of State

May 3, 2011

GRATIS TOWNSHIP  
PREBLE COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009

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

FINDING NUMBER 2010-001

**Noncompliance Citation**

**Ohio Revised Code, § 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 20 expenditures tested in 2009, 12 (60%) were not properly certified. Of 22 expenditures tested in 2010, five (23%) were not properly certified. There was no evidence that the Township followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2010-001  
(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.

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.

**The officials did not respond to the finding reported above.**



**GRATIS TOWNSHIP  
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010 AND 2009**

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>
2008-001	ORC § 5705.41(D), failure to properly certify Funds	No	Not Corrected – Re-Issued as Finding 2010-001
2008-002	Failure to properly post receipts	No	Partially Corrected – Re-Issued as a Management Letter Comment
2008-003	Failure to properly post appropriations	Yes	

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# Dave Yost • Auditor of State

**GRATIS 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  
MAY 26, 2011**