



Dave Yost • Auditor of State

**GRATIS TOWNSHIP
PREBLE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Opinion on Regulatory Basis of Accounting

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, during 2011 Gratis Township adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2013, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

May 22, 2013

**GRATIS TOWNSHIP
PREBLE COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$25,359	\$327,657	\$353,016
Charges for Services		70,012	70,012
Licenses, Permits and Fees	14,849	38,368	53,217
Intergovernmental	53,820	150,328	204,148
Earnings on Investments	273	93	366
Miscellaneous	1,719	9,787	11,506
<i>Total Cash Receipts</i>	<u>96,020</u>	<u>596,245</u>	<u>692,265</u>
Cash Disbursements			
Current:			
General Government	68,486	241,013	309,499
Public Safety		70,012	70,012
Public Works		155,310	155,310
Health	10,441	102,571	113,012
Capital Outlay	908	5,988	6,896
Debt Service:			
Principal Retirement		9,798	9,798
Interest and Fiscal Charges		1,627	1,627
<i>Total Cash Disbursements</i>	<u>79,835</u>	<u>586,319</u>	<u>666,154</u>
<i>Excess of Receipts Over Disbursements</i>	<u>16,185</u>	<u>9,926</u>	<u>26,111</u>
<i>Fund Cash Balances, January 1</i>	<u>110,049</u>	<u>205,399</u>	<u>315,448</u>
Fund Cash Balances, December 31			
Restricted	0	215,325	215,325
Unassigned (Deficit)	126,234	0	126,234
<i>Fund Cash Balances, December 31</i>	<u>\$126,234</u>	<u>\$215,325</u>	<u>\$341,559</u>

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

**GRATIS TOWNSHIP
PREBLE OUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
PRIVATE PURPOSE TRUST
FOR THE YEAR ENDED DECEMBER 31, 2012**

Non-Operating Cash Receipts	
Earnings on Investments	<u>\$61</u>
Total Non-Operating Receipts	<u>61</u>
Non-Operating Cash Disbursements	
Other Non-Operating Cash Disbursements	<u>102</u>
Total Non-Operating Cash Disbursements	<u>102</u>
Net Receipts (Under) Disbursements	(41)
<i>Fund Cash Balances, January 1</i>	<u>4,860</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$4,819</u></u>

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

**GRATIS TOWNSHIP
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$27,362	\$343,085	\$370,447
Charges for Services		38,649	38,649
Licenses, Permits and Fees	8,346	41,601	49,947
Intergovernmental	56,442	153,870	210,312
Earnings on Investments	861	227	1,088
Miscellaneous	2,615	11,490	14,105
<i>Total Cash Receipts</i>	<u>95,626</u>	<u>588,922</u>	<u>684,548</u>
Cash Disbursements			
Current:			
General Government	55,661	239,377	295,038
Public Safety		38,649	38,649
Public Works	165	187,498	187,663
Health	10,159	80,075	90,234
Capital Outlay	708	7,529	8,237
Debt Service:			
Principal Retirement		24,340	24,340
Interest and Fiscal Charges		2,871	2,871
<i>Total Cash Disbursements</i>	<u>66,693</u>	<u>580,339</u>	<u>647,032</u>
<i>Excess of Receipts Over Disbursements</i>	<u>28,933</u>	<u>8,583</u>	<u>37,516</u>
<i>Fund Cash Balances, January 1</i>	<u>81,116</u>	<u>196,816</u>	<u>277,932</u>
Fund Cash Balances, December 31			
Restricted		205,399	205,399
Unassigned (Deficit)	110,049		110,049
<i>Fund Cash Balances, December 31</i>	<u>\$110,049</u>	<u>\$205,399</u>	<u>\$315,448</u>

GRATIS TOWNSHIP
PREBLE OUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
PRIVATE PURPOSE TRUST
FOR THE YEAR ENDED DECEMBER 31, 2011

Non-Operating Cash Receipts	
Earnings on Investments	\$87
	<hr/>
Total Non-Operating Cash Receipts	87
	<hr/>
Non-Operating Cash Disbursements	
Other Non-Operating Cash Disbursements	40
	<hr/>
Total Non-Operating Cash Disbursements	40
	<hr/>
<i>Net Change in Fund Cash Balances</i>	47
	<hr/>
<i>Fund Cash Balances, January 1</i>	4,813
	<hr/>
<i>Fund Cash Balances, December 31</i>	\$4,860
	<hr/> <hr/>

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

**GRATIS TOWNSHIP
PREBLE COUNTY**

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

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of 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 accounts for and reports all financial resources not accounted for and reported in another fund.

**GRATIS TOWNSHIP
PREBLE COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

2. Special Revenue Funds

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

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 service for Township residents.

3. 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 from which interest earned is used for the 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) 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 2012 and 2011 budgetary activity appears in Note 3.

**GRATIS TOWNSHIP
PREBLE COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant, and Equipment

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**GRATIS TOWNSHIP
PREBLE COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

H. 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:

	2012	2011
Demand deposits	\$341,978	\$315,908
Certificates of deposit	4,400	4,400
Total deposits	\$346,378	\$320,308

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, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$55,078	\$96,020	\$40,942
Special Revenue	594,599	596,245	1,646
Trust	40	61	21
Total	\$649,717	\$692,326	\$42,609

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$103,370	\$79,835	\$23,535
Special Revenue	644,075	586,319	57,756
Trust	300	102	198
Total	\$747,745	\$666,256	\$81,489

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$57,355	\$95,626	\$38,271
Special Revenue	587,500	588,922	1,422
Trust	80	87	7
Total	\$644,935	\$684,635	\$39,700

**GRATIS TOWNSHIP
PREBLE COUNTY**

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

3. Budgetary Activity (Continued)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$92,670	\$66,693	\$25,977
Special Revenue	694,650	580,339	114,311
Trust	300	40	260
Total	\$787,620	\$647,072	\$140,548

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.

5. Debt

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
Dump Truck Loan	\$26,489	4.5%

The Township retired the loan on the Holland Tractor in 2011.

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 \$48,700 and is being repaid in four annual installments of \$11,425, which includes interest, with a final principal payment due in 2014.

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

Year ending December 31:	Dump Truck Loan
2013	11,425
2014	11,425
2015	5,620
Total	\$28,470

**GRATIS TOWNSHIP
PREBLE COUNTY**

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

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 2012 and 2011, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2012.

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. 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, 2010, 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, 2011 and 2010 (the latest information available):

	<u>2011</u>	<u>2010</u>
Assets	\$35,086,165	\$35,855,252
Liabilities	<u>(9,718,792)</u>	<u>(10,664,724)</u>
Net Assets	<u>\$25,367,373</u>	<u>\$25,190,528</u>

**GRATIS TOWNSHIP
PREBLE COUNTY**

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

7. Risk Management (Continued)

At December 31, 2011 and 2010, respectively, the liabilities above include approximately \$9.1 and \$9.9 million of estimated incurred claims payable. The assets above also include approximately \$8.6 and \$9.5 million of unpaid claims to be billed to approximately 938 member governments in the future, as of December 31, 2011 and 2010, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2011, the Township's share of these unpaid claims collectible in future years is approximately \$5,000.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

<u>Contributions to OTARMA</u>	
<u>2011</u>	<u>2010</u>
\$6,866	\$6,621

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 AUDITOR'S 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 in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Gratis Township, Preble County, Ohio (the Township), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated May 22, 2013 wherein we noted the Township followed accounting financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1. We also noted that during 2011 the Township adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. We consider finding 2012-03 described in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-02 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-01.

Purpose of this Report

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



Dave Yost
Auditor of State

May 22, 2013

**GRATIS TOWNSHIP
PREBLE COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-01

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 2011, four (20%) were not properly certified. Of 17 expenditures tested in 2012, five (29%) 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 2012-01
(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.

FINDING NUMBER 2012-02

Significant Deficiency

When designing the public office's system of internal control and the related 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 financial activity. This lack of oversight is illustrated by the following conditions:

- In 2011, the Township posted Cable TV Franchise fees (\$8,346) to Miscellaneous Revenue rather than Licenses, Permits, and Fees in the General Fund.
- In 2012, the Township posted Cable TV Franchise fees (\$14,849) to Miscellaneous Revenue rather than Licenses, Permits and Fees in the General Fund.

These adjustments have been posted to the accompanying financial statements and do not affect the General Fund balances. Failure to properly post revenues can result in inaccurate records and increase the risk that errors, theft, or fraud could occur and not be detected in a timely manner. To improve accountability and record keeping, we recommend that the Township accurately post all cable franchise fees to the correct line item.

FINDING NUMBER 2012-03

Material Weakness

When designing the public office's system of internal control and the related 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 financial activity. This lack of oversight is illustrated by the following conditions:

- In 2011, the Township improperly reimbursed officials for healthcare insurance premiums from the Road and Bridge Fund instead of the General Fund (\$4,542).
- In 2012, the Township improperly reimbursed officials for healthcare insurance premiums from the Road and Bridge fund instead of the General Fund. (\$4,654).

These adjustments have been posted to the accompanying financial statements and the Township's accounting records. Failure to properly post disbursements can result in inaccurate records and increase the risk that errors, theft, or fraud could occur and not be detected in a timely manner. To improve accountability and record keeping, we recommend that the Township accurately post all healthcare reimbursements to the correct fund.

The officials did not respond to the findings reported above.

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**GRATIS TOWNSHIP
PREBLE COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	ORC 5705.41(D), failure to properly certify funds.	No	Not corrected – Reissued as Finding 2012-01.

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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
JUNE 6, 2013**