



**Auditor of State
Betty Montgomery**

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Painesville Township
Lake County
55 Nye Road
Painesville Township, Ohio 44077

To the Board of Trustees:

We have audited the accompanying financial statements of Painesville Township, Lake County, Ohio, (the Township) as of and for the years ended December 31, 2003 and December 31, 2002. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Township's financial transactions were processed using 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 conduct the audit of 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 the 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 that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Township as of December 31, 2003 and December 31, 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2005 on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

February 1, 2005

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$181,923	\$2,258,672	\$2,440,595
Intergovernmental	656,847	436,620	1,093,467
Special Assessments	0	65,950	65,950
Charges for Services	0	288,505	288,505
Licenses, Permits, and Fees	47,793	0	47,793
Fines, Forfeitures, and Penalties	630	0	630
Earnings on Investments	53,925	0	53,925
Other Revenue	130,482	14,361	144,843
	<u>1,071,600</u>	<u>3,064,108</u>	<u>4,135,708</u>
Total Cash Receipts			
	1,071,600	3,064,108	4,135,708
Cash Disbursements:			
Current:			
General Government	735,726	0	735,726
Public Safety	0	2,000,991	2,000,991
Public Works	59,689	1,023,315	1,083,004
Health	102,339	0	102,339
Capital Outlay	1,009	184,644	185,653
Debt Service:			
Redemption of Principal	9,069	0	9,069
	<u>907,832</u>	<u>3,208,950</u>	<u>4,116,782</u>
Total Cash Disbursements			
	907,832	3,208,950	4,116,782
Total Receipts Over/(Under) Disbursements	<u>163,768</u>	<u>(144,842)</u>	<u>18,926</u>
	163,768	(144,842)	18,926
Fund Cash Balances, January 1, 2003	<u>3,709,597</u>	<u>3,128,006</u>	<u>6,837,603</u>
	3,709,597	3,128,006	6,837,603
Fund Cash Balances, December 31, 2003	<u><u>\$3,873,365</u></u>	<u><u>\$2,983,164</u></u>	<u><u>\$6,856,529</u></u>
	\$3,873,365	\$2,983,164	\$6,856,529
Reserve for Encumbrances, December 31, 2003	<u><u>\$0</u></u>	<u><u>\$79,522</u></u>	<u><u>\$79,522</u></u>
	\$0	\$79,522	\$79,522

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

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$164,069	\$2,182,438	\$0	\$2,346,507
Intergovernmental	877,467	396,655	154,500	1,428,622
Special Assessments	0	61,445	0	61,445
Charges for Services	0	183,495	0	183,495
Licenses, Permits, and Fees	53,512	98	0	53,610
Fines, Forfeitures, and Penalties	1,941	0	0	1,941
Earnings on Investments	90,273	598	0	90,871
Other Revenue	160,414	28,569	0	188,983
	<u>1,347,676</u>	<u>2,853,298</u>	<u>154,500</u>	<u>4,355,474</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
General Government	772,283	0	0	772,283
Public Safety	0	1,760,250	0	1,760,250
Public Works	101,623	1,010,715	0	1,112,338
Health	95,257	0	0	95,257
Capital Outlay	0	208,116	250,060	458,176
Debt Service:				
Redemption of Principal	9,069	0	0	9,069
	<u>978,232</u>	<u>2,979,081</u>	<u>250,060</u>	<u>4,207,373</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>369,444</u>	<u>(125,783)</u>	<u>(95,560)</u>	<u>148,101</u>
Other Financing Receipts and (Disbursements):				
Proceeds from Issue II Loan	<u>0</u>	<u>0</u>	<u>95,560</u>	<u>95,560</u>
Total Other Financing Receipts/(Disbursements)	<u>0</u>	<u>0</u>	<u>95,560</u>	<u>95,560</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	369,444	(125,783)	0	243,661
Fund Cash Balances, January 1, 2002	<u>3,340,153</u>	<u>3,253,789</u>	<u>0</u>	<u>6,593,942</u>
Fund Cash Balances, December 31, 2002	<u>\$3,709,597</u>	<u>\$3,128,006</u>	<u>\$0</u>	<u>\$6,837,603</u>
Reserve for Encumbrances, December 31, 2002	<u>\$5,752</u>	<u>\$28,435</u>	<u>\$0</u>	<u>\$34,187</u>

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

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Painesville Township, Lake County, Ohio, (the Township) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides general governmental services, including road and bridge maintenance, cemetery maintenance, and fire protection and emergency medical services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Money market mutual funds are recorded at share values reported by the mutual fund.

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

2. Special Revenue Funds

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

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

Fire District Fund - This fund receives property tax money to provide fire protection to the Township residents.

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Capital Project Fund

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Township had the following significant Capital Project Fund:

Issue II Fund – The Township received a grant and a loan from the Ohio Public Works Commission in 2002 for a storm sewer project. The Township did not receive or expend any funds in 2003. This fund was proposed by the auditors and agreed to by the Township.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's basis of accounting.

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2003	2002
Demand Deposits	(\$5,517)	(\$119,208)
Money Market Fund	296,600	294,314
Total deposits	291,083	175,106
U.S. Treasury Money Market	1,195,446	1,192,497
Overnight Repurchase Agreements	5,370,000	5,470,000
Total investments	6,565,446	6,662,497
Total deposits and investments	\$6,856,529	\$6,837,603

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

Investments: The Township overnight repurchase agreement is invested in Federal National Mortgage Association Notes. The Federal Government and Federal Agency securities are held in book-entry form by the Federal Reserve, in the name of the Township's financial institution. The financial institution maintains records identifying the Township as owner of these securities. Investments in the Money Market Fund are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending follows December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

	Budgeted	Actual	
Fund Type	Receipts	Receipts	Variance
General	\$1,320,000	\$1,071,600	(\$248,400)
Special Revenue	2,860,961	3,064,108	203,147
Total	\$4,180,961	\$4,135,708	(\$45,253)

2003 Budgeted vs. Actual Budgetary Basis Expenditures

	Appropriation	Budgetary	
Fund Type	Authority	Expenditures	Variance
General	\$1,405,752	\$907,832	\$497,920
Special Revenue	3,473,435	3,288,472	184,963
Total	\$4,879,187	\$4,196,304	\$682,883

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,319,888	\$1,347,676	\$27,788
Special Revenue	\$2,849,424	\$2,853,298	\$3,874
Capital Projects	0	250,060	250,060
	\$4,169,312	\$4,451,034	\$281,722

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,400,000	\$983,984	\$416,016
Special Revenue	\$3,165,000	\$3,007,516	\$157,484
Capital Projects	0	250,060	(\$250,060)
Total	\$4,565,000	\$4,241,560	\$323,440

The Township did not always certify the availability and encumber funds, prior to making any contract or ordering any expenditure of money, in either year under audit, contrary to Ohio Revised Code Section 5705.41(D).

During 2002, the Ohio Public Works Commission (OPWC) made payments on behalf of the Township for an Issue II project. Contrary to Ohio Revised Code Section 5705.36 and 5705.40, the Township failed to include the revenue on the certificate of estimated resources and appropriate the payments made on their behalf.

4. PROPERTY TAX

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

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

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

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

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

5. DEBT

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest Rate
Ohio Public Works Loan	\$22,673	0%
Total	\$22,673	

The Ohio Public Works Loan relates to the storm sewer project. This debt is being paid from the General Fund.

Amortization of the above debt is scheduled as follows:

	OPWC Loan
Year ending December 31:	
2004	\$9,069
2005	9,069
2006	4,535
Total	\$22,673

In 2002, the Township obtained a loan with Ohio Public Works for a Storm sewer project. At the end of the audit period the loan was still open and the Township had received \$95,560 in loan proceeds. No payments will be made on the loan until the loan is closed. No amortization schedule has been provided for the loan, however, this loan is a 0% interest loan.

6. RETIREMENT SYSTEMS

The Township's certified Fire Fighters belong to the Ohio Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including post retirement health care, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, members of OP&F participants contributed 10% of their wages. The Township contributed an amount equal to 24% of their wages to OP&F. OPERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2003 and 2002. The Township has paid all contributions required through December 31, 2003.

7. RISK MANAGEMENT

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. 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.

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

7. RISK MANAGEMENT (Continued)

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per claim, including loss 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 \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

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

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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 township.

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, 2003 and 2002:

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$27,792,223	\$23,757,036
Liabilities	<u>(11,791,300)</u>	<u>(9,197,512)</u>
Retained earnings	<u>\$16,000,923</u>	<u>\$14,559,524</u>
<u>Property Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$6,791,060	\$6,596,996
Liabilities	<u>(750,956)</u>	<u>(1,204,326)</u>
Retained earnings	<u>\$6,040,104</u>	<u>\$5,392,670</u>



Auditor of State Betty Montgomery

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

Painesville Township
Lake County
55 Nye Road
Painesville Township, Ohio 44077

To the Board of Trustees:

We have audited the financial statements of Painesville Township, Lake County, Ohio, (the Township) as of and for the years ended December 31, 2003 and December 31, 2002, and have issued our report thereon dated February 1, 2005, wherein we noted that the Township's financial transactions were processed using 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 conduct the audit of the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to the Township's management in a separate letter dated February 1, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the Township's management in a separate letter dated February 1, 2005.

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

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

Betty Montgomery
Auditor of State

February 1, 2005

**PAINESVILLE TOWNSHIP
LAKE COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

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

FINDING NUMBER 2003-001

Noncompliance Citation

Encumbrance of Funds

Ohio Rev. 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 (\$1,000 prior to April 7, 2003) 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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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.

Thirty-five percent (24 out of 69) of the expenditures tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Township followed the aforementioned exceptions. We also noted the Trustees did not approve any blanket certificates during the audit period. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

FINDING NUMBER 2003-001 (Continued)

Encumbrance of Funds (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 Clerk-Treasurer 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) required 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 2003-002

Noncompliance Citation

Issue II Project Accounting

Ohio Revised Code Section 5705.09(F) provides that each subdivision is required to establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Ohio Revised Code Section 5705.36(A)(3) allows all subdivisions to request an increased amended certificate of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater than the amount included in an official certificate. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Rev. Code Section 5705.40 provides that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. However, no appropriation for any purpose may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations certified from or against the appropriation.

During 2002, the Ohio Public Works Commission (OPWC) expended \$154,500, for an Issue II grant project on behalf of the Township. The Township also received a loan from OPWC for \$95,560. The Township did not establish the proper fund or include the proceeds and expenditures in their records. In accordance with Auditor of State Bulletins 2000-008 and 2002-004, both the revenue and expenditure activity of the grant and loan should have been included. The Township failed to certify available resources to the County budget commission, and account for all appropriations to and from each appropriations fund. This resulted in the understatement of budgetary revenue and expenditure activity for the Issue II project. The accompanying financial statements have been adjusted to reflect the grant and loan activity.

We recommend the Township follow the budgetary plan of Chapter 5705 of the Revised Code and monitor appropriations, amending them as appropriate to record these funds. When the Township receives notice that it has been approved for funding by a State or Federal agency, it should review the reporting requirements established by Auditor of State Bulletins 2000-008 and 2002-004, create the required fund(s), certify the available resources to the County budget commission, amend its appropriations measure to account for the grant funds, and when notified that funds have been expended on its behalf, make memo entries to post the revenues and expenditures to the Township's books.

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-40843-001	ORC 5705.41(D) Encumbrance of Funds	No	Comment re-issued as finding 2003-001



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PAINESVILLE TOWNSHIP

LAKE 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
FEBRUARY 24, 2005**