

Washington Township

Hocking County, Ohio

Regular Audit

For the Years Ended December 31, 2004 and 2003

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

Telephone (740) 289-4131

Fax (740) 289-3639

www.bhscpas.com



**Auditor of State
Betty Montgomery**

Board of Trustees
Washington Township
22020 Hoskins Road
Logan, Ohio 43138

We have reviewed the *Independent Auditor's Report* of Washington Township, Hocking County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2003 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. Washington Township, Hocking County is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

February 28, 2006

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WASHINGTON TOWNSHIP
HOCKING COUNTY

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Board of Trustees
Washington Township
Hocking County, Ohio
17540 State Route 664 South
Logan, OH 43138

We have audited the accompanying financial statements of Washington Township, Hocking County, (the Township) as of and for the years ended December 31, 2004 and 2003. 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 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. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the government 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. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the funds accompanying financial statements presented for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e., major) funds separately for 2004. While the Township does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require, governments to reformat their statements. The Township has elected not to reformat its statements. Since the Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts are materially misstated under 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 paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township's combined funds as of December 31, 2004, or their changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Washington Township, Hocking County, as of December 31, 2004 and 2003, 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 July 11, 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 grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. 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.



Balestra, Harr & Scherer, CPAs, Inc.

July 11, 2005

**WASHINGTON TOWNSHIP
HOCKING COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$54,835	\$53,515	\$0	\$108,350
Intergovernmental	47,191	147,715	45,500	240,406
Earnings on Investments	447	376	0	823
Other Revenue	136	11,255	0	11,391
	<u>102,609</u>	<u>212,861</u>	<u>45,500</u>	<u>360,970</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
General Government	64,020	733	0	64,753
Public Safety	0	95,723	0	95,723
Public Works	269	118,553	0	118,822
Health	2,256	0	0	2,256
Capital Outlay	0	0	120,500	120,500
	<u>66,545</u>	<u>215,009</u>	<u>120,500</u>	<u>402,054</u>
Total Cash Disbursements				
Total Cash Receipts Over/(Under) Cash Disbursements	<u>36,064</u>	<u>(2,148)</u>	<u>(75,000)</u>	<u>(41,084)</u>
Other Financing Receipts and (Disbursements):				
Other Proceeds from Sale of Public Debt	0	0	75,000	75,000
	<u>0</u>	<u>0</u>	<u>75,000</u>	<u>75,000</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>36,064</u>	<u>(2,148)</u>	<u>0</u>	<u>33,916</u>
Fund Cash Balances, January 1	<u>29,674</u>	<u>94,838</u>	<u>0</u>	<u>124,512</u>
Fund Cash Balances, December 31	<u>\$65,738</u>	<u>\$92,690</u>	<u>\$0</u>	<u>\$158,428</u>

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

**WASHINGTON TOWNSHIP
HOCKING 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	\$48,817	\$50,464	\$99,281
Intergovernmental	14,017	71,877	85,894
Earnings on Investments	268	536	804
Other Revenue	<u>72</u>	<u>5,385</u>	<u>5,457</u>
Total Cash Receipts	<u>63,174</u>	<u>128,262</u>	<u>191,436</u>
Cash Disbursements:			
Current:			
General Government	73,412	0	73,412
Public Safety	0	13,234	13,234
Public Works	0	76,054	76,054
Health	1,846	0	1,846
Capital Outlay	<u>0</u>	<u>33,159</u>	<u>33,159</u>
Total Cash Disbursements	<u>75,258</u>	<u>122,447</u>	<u>197,705</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(12,084)</u>	<u>5,815</u>	<u>(6,269)</u>
Other Financing Receipts and (Disbursements):			
Other Sources	<u>3,757</u>	<u>0</u>	<u>3,757</u>
Total Other Financing Receipts/(Disbursements)	<u>3,757</u>	<u>0</u>	<u>3,757</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(8,327)	5,815	(2,512)
Fund Cash Balances, January 1	<u>38,001</u>	<u>89,023</u>	<u>127,024</u>
Fund Cash Balances, December 31	<u>\$29,674</u>	<u>\$94,838</u>	<u>\$124,512</u>

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

**WASHINGTON TOWNSHIP
HOCKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Washington Township, Hocking County (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 road and bridge maintenance, cemetery maintenance and fire protection 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. 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:

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 provide fire protection to the Township.

WASHINGTON TOWNSHIP
HOCKING COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)

D. 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, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

E. Property, Plant and Equipment

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2004</u>	<u>2003</u>
Demand deposits	\$158,428	\$124,512

Deposits: Deposits are collateralized by the financial institution's public entity deposit pool.

WASHINGTON TOWNSHIP
HOCKING COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$99,800	\$102,609	\$2,809
Special Revenue	206,625	212,861	6,236
Capital Projects	125,000	120,500	(4,500)
Total	<u>\$431,425</u>	<u>\$435,970</u>	<u>\$4,545</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$96,069	\$66,545	\$29,524
Special Revenue	275,962	215,009	60,953
Capital Projects	125,000	120,500	4,500
Total	<u>\$497,031</u>	<u>\$402,054</u>	<u>\$94,977</u>

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$65,417	\$66,931	\$1,514
Special Revenue	124,679	128,262	3,583
Total	<u>\$190,096</u>	<u>\$195,193</u>	<u>\$5,097</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$91,154	\$75,258	\$15,896
Special Revenue	204,595	122,447	82,148
Total	<u>\$295,749</u>	<u>\$197,705</u>	<u>\$98,044</u>

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.

WASHINGTON TOWNSHIP
HOCKING COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)

4. PROPERTY TAX (Continued)

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. LEASE

The Township obtained a lease rental agreement from Ohio Township Association Leasing, LLC, in 2004, for the construction of a fire station. The original lease agreement was for \$75,000 for ten years, with annual payment of \$9,565 that begin in 2005.

The following is a schedule by year of future minimum lease payments together with the related present value:

<u>Year Ending</u>	<u>Payment</u>
2005	\$9,403
2006	9,565
2007	9,565
2008	9,565
2009	9,565
2010-2014	<u>47,827</u>
Total	<u>\$95,490</u>
Present Value of Net Minimum	
Lease Payments	<u>\$75,000</u>

6. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, members of PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all employer contributions required through December 31, 2004.

The fire chief has elected to pay into Social Security. The employer and employee contributions to Social Security were equal to 6.2% of gross salary. The Township has paid all contributions required through December 31, 2004.

WASHINGTON TOWNSHIP
HOCKING COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)

7. **RISK MANAGEMENT**

Risk Pool Membership

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio Townships. OTARMA provides property and casualty insurance for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Insurance

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

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 Insurance

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

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities, and retained earnings at December 31, 2003 and 2002 (the latest information available):

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

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Piketon, Ohio 45661

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Washington Township
Hocking County, Ohio
17540 State Route 664 South
Logan, OH 43138

We have audited the accompanying financial statements of Washington Township, Hocking County, Ohio (the Township), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated July 11, 2005, 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 conducted our audits 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Township's internal control over financial reporting in order to determine auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our test disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as 2004-001 through 2004-003.

Washington Township
Hocking County
Report on Internal Control Over Financial Reporting and on Compliance
And Other Matters Based on An Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards*

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

A handwritten signature in cursive script, reading "Balestra, Harr & Scherer", is displayed within a light-colored rectangular box.

Balestra, Harr & Scherer, CPAs, Inc.

July 11, 2005

**WASHINGTON TOWNSHIP
HOCKING COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Revised Code 5705.28 states in part that on or before July 15, in each year, the taxing authority of each subdivision or other taxing unit is required to adopt a tax budget for the next succeeding fiscal year.

During 2003, no tax budget was approved by the Board of Trustees. Not properly approving the budget can lead to mis-monitoring of budgetary issues.

We recommend that the Township properly approve a tax budget on or before July 15 of every year unless a waiver to file the tax budget is obtained from the county auditor.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Revised Code 5705.40 states in part 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.

We noted the following material variances of appropriations v. actual expenditures at the object (legal) level:

2003:		2004:	
General Fund-Materials	\$10,000	General Fund-Insurance	\$16,474
Gas Tax Fund-Maintenance	6,929	General Fund-Materials	10,800
Gas Tax Fund-Other expense	7,960	Road & Bridge – Other Expenses	9,945
Fire Fund-New Buildings and Equipment	17,500		
Fires Fund-Repairs	9,016		

If appropriations are not carefully monitored, this could lead to overspending and possible fund balance deficits.

We recommend that the Township carefully monitor appropriation versus actual expenditures.

**WASHINGTON TOWNSHIP
HOCKING COUNTY**

**SCHEDULE OF FINDINGS (Continued)
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-003

Noncompliance Citation

Ohio Revised Code 5705.41(D) states in part that no orders or contracts involving the expenditures of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. The only exception is provided by statute. Then and Now certificates can be used for these exceptions, where a fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, 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, and then the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

During test work of the Township's compliance with laws and regulations over non-payroll issues, we noted that purchase orders were issued after invoices were received for several of the expenditures testing in 2003 and 2004. This could lead to overspending and misappropriated funds.

We recommend that the Township properly encumber funds before the obligation occurs. This is accomplished by issuing purchase orders for appropriations before the invoices or services are rendered.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

WASHINGTON TOWNSHIP

HOCKING 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
MARCH 14, 2006**