



Mary Taylor, CPA  
Auditor of State



HANOVER TOWNSHIP  
BUTLER COUNTY

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Mary Taylor, CPA  
Auditor of State

Hanover Township  
Butler County  
2595 Old Oxford Road  
Hamilton, Ohio 45013

To the Board of Trustees:

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

*Mary Taylor*

**Mary Taylor, CPA**  
Auditor of State

November 21, 2008

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Hanover Township  
Butler County  
2595 Old Oxford Road  
Hamilton, Ohio 45013

To the Board of Trustees:

We have audited the accompanying financial statements of Hanover Township, Butler County, Ohio (the Township), as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2007 and 2006, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Hanover Township, Butler County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Mary Taylor, CPA**  
Auditor of State

November 21, 2008



**HANOVER TOWNSHIP  
BUTLER COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$127,389	\$618,615	\$11,648	\$757,652
Charges for Services		118,188		118,188
Licenses, Permits, and Fees	62,482	48,186		110,668
Fines and Forfeitures	533			533
Intergovernmental	322,195	259,943		582,138
Earnings on Investments	5,118	13,740		18,858
Miscellaneous	9,004	72,286		81,290
	<u>526,721</u>	<u>1,130,958</u>	<u>11,648</u>	<u>1,669,327</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	255,874	7,403		263,277
Public Safety	176,475	275,937		452,412
Public Works		558,502		558,502
Health	3,819	95,494		99,313
Human Services		21,475		21,475
Conservation - Recreation	3,655			3,655
Capital Outlay	73,703	10,716		84,419
Debt Service:				
Redemption of Principal			17,500	17,500
Interest and Other Fiscal Charges			5,680	5,680
	<u>513,526</u>	<u>969,527</u>	<u>23,180</u>	<u>1,506,233</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>13,195</u>	<u>161,431</u>	<u>(11,532)</u>	<u>163,094</u>
<b>Other Financing Receipts / (Disbursements):</b>				
Transfers-In			11,532	11,532
Transfers-Out		(11,532)		(11,532)
Other Financing Sources	700			700
Other Financing Uses	(704)			(704)
	<u>(4)</u>	<u>(11,532)</u>	<u>11,532</u>	<u>(4)</u>
Total Other Financing Receipts / (Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over / Cash Disbursements and Other Financing Disbursements	13,191	149,899	0	163,090
Fund Cash Balances, January 1	<u>14,887</u>	<u>688,409</u>	<u>0</u>	<u>703,296</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$28,078</u></b>	<b><u>\$838,308</u></b>	<b><u>\$0</u></b>	<b><u>\$866,386</u></b>

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

**HANOVER TOWNSHIP  
BUTLER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Totals (Memorandum Only)</b>
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$41,232	\$415,495	\$23,114	\$479,841
Charges for Services	5,252	116,986		122,238
Licenses, Permits, and Fees	59,235	48,676		107,911
Fines and Forfeitures	541			541
Intergovernmental	302,886	239,303		542,189
Earnings on Investments	6,283	6,723		13,006
Miscellaneous	8,488	65,319		73,807
Total Cash Receipts	423,917	892,502	23,114	1,339,533
<b>Cash Disbursements:</b>				
Current:				
General Government	219,114			219,114
Public Safety	181,703	96,160		277,863
Public Works		496,251		496,251
Health	35,077	93,333		128,410
Conservation - Recreation	296			296
Capital Outlay	76,505	64,582		141,087
Debt Service:				
Redemption of Principal			16,600	16,600
Interest and Other Fiscal Charges			6,514	6,514
Total Cash Disbursements	512,695	750,326	23,114	1,286,135
Total Receipts Over/(Under) Disbursements	(88,778)	142,176	0	53,398
<b>Other Financing Receipts / (Disbursements):</b>				
Other Financing Uses	(6,367)			(6,367)
Total Other Financing Receipts / (Disbursements)	(6,367)	0	0	(6,367)
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	(95,145)	142,176	0	47,031
Fund Cash Balances, January 1	110,032	546,233		656,265
<b>Fund Cash Balances, December 31</b>	<b>\$14,887</b>	<b>\$688,409</b>	<b>\$0</b>	<b>\$703,296</b>
Reserve for Encumbrances, December 31	\$0	\$5,500	\$0	\$5,500

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

**HANOVER TOWNSHIP  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006**

**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 Hanover Township, Butler County, Ohio (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Butler County Sheriff's Department to provide police protection services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool, which is available to Ohio townships. OTARMA provides property and casualty coverage for its members. Note 7 to the financial statements provides additional information for this entity.

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

**B. Accounting Basis**

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Cash and Deposits**

The Township values certificates of deposit at cost.

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

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

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

**HANOVER TOWNSHIP  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

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

Gasoline Tax Fund - This fund receives gasoline tax money to pay for constructing, maintaining, and repairing Township roads.

**3. Debt Service Fund**

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

**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, 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. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

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

**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. However, the Township overlooked one encumbrance during the canceling process and it is included on the financial statements.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

**F. Property, Plant, and Equipment**

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

**G. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**HANOVER TOWNSHIP  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**2. Equity in Pooled Cash and Deposits**

The Township maintains a cash and investments 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:

	2007	2006
Demand deposits	\$362,651	\$703,296
Certificates of deposit	503,735	
Total deposits	\$866,386	\$703,296

**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, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$526,674	\$527,421	\$747
Special Revenue	1,105,091	1,130,958	25,867
Debt Service	23,180	23,180	0
Total	\$1,654,945	\$1,681,559	\$26,614

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$549,695	\$514,230	\$35,465
Special Revenue	1,779,866	981,059	798,807
Debt Service	23,180	23,180	0
Total	\$2,352,741	\$1,518,469	\$834,272

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$426,095	\$423,917	(\$2,178)
Special Revenue	749,259	892,502	143,243
Debt Service	23,114	23,114	0
Total	\$1,198,468	\$1,339,533	\$141,065

**HANOVER TOWNSHIP  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**3. Budgetary Activity (Continued)**

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$557,201	\$519,062	\$38,139
Special Revenue	1,307,638	755,826	551,812
Debt Service	23,114	23,114	0
Total	\$1,887,953	\$1,298,002	\$589,951

Contrary to Ohio law, the Township expended money from the CDBG grant without first appropriating it.

**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, 2007 was as follows:

	Principal	Interest Rate
Firetruck Acquisition Bonds	\$101,600	4.95%
Vehicle Lease Purchase	113,174	4.35%
Total	\$214,774	

The Township issued bonds in December 2002, to pay off general obligations notes for the acquisition of a fire truck. The bonds will be repaid in semiannual installments, with an interest rate of 4.95%, over a ten year period, maturing in December 2012. The bonds are secured by a pledge of faith, credit and revenue of the Board of Trustees.

The Township entered into a renewable lease-purchase agreement through Ohio Township Association Lease for the purchase of three vehicles for \$123,950 on April 1, 2007 for a period of 5 years at 4.35%. Payments of \$13,981 (including interest) are made semiannually on May 15 and November 15. The lease is collateralized by the vehicles. The Township recorded these lease payments in the Capital Outlay line item in the Special Revenue Funds.

**HANOVER TOWNSHIP  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**5. Debt (Continued)**

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

Year ending December 31:	Lease	Fire Truck Acquisition Bonds
2008	\$27,963	23,204
2009	27,963	23,183
2010	27,963	23,216
2011	27,963	23,198
2012	13,981	23,132
Total	<u>\$125,833</u>	<u>\$115,933</u>

**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 2007 and 2006, OPERS members contributed 9.5% and 9%, respectively, of their gross salaries and the Township contributed an amount equaling 13.85% and 13.7%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

**7. Risk Management**

**Risk Pool Membership**

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

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

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

**HANOVER TOWNSHIP  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**7. Risk Management (Continued)**

Casualty Coverage

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

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

Property Coverage

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

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

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

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006.



**HANOVER TOWNSHIP  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

**7. Risk Management (Continued)**

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

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$17,791. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

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

<b><u>Contributions to OTARMA</u></b>	
2005	\$26,424
2006	\$20,814
2007	\$18,927

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

**8. Related Party Transactions**

A Township Trustee also holds the position of Deputy of Administration with the Butler County Engineer's Office. This Trustee approved Township contracts that went through competitive bid procedures initiated through the Butler County Engineer's Office.

A Township Trustee also holds the position of Deputy Sheriff with the Butler County Sheriff's office. The Township contracts with the Butler County Sheriff's Office for police protection. The Township paid Butler County \$166,249 in 2007 and \$153,304 in 2006 for police protection.

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# Mary Taylor, CPA

Auditor of State

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

Hanover Township  
Butler County  
2595 Old Oxford Road  
Hamilton, Ohio 45013

To the Board of Trustees:

We have audited the financial statements of Hanover Township, Butler County, Ohio (the Township), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated November 21, 2008 wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit Hanover Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-005.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings number 2007-005 is also a material weakness.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated November 21, 2008.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-005.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated November 21, 2008.

The Township's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Township's response and, accordingly, we express no opinion on it.

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



**Mary Taylor, CPA**  
Auditor of State

November 21, 2008

**HANOVER TOWNSHIP  
BUTLER COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND 2006**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2007-001**

**Noncompliance Citation**

**Ohio Rev. Code, Section 505.60(A)**, states that the board of township trustees of any township may procure and pay all or any part of the cost of insurance policies that may provide benefits for hospitalization, surgical care, major medical care, disability, dental care, eye care, medical care, hearing aids, prescription drugs, or sickness and accident insurance, or a combination of any of the foregoing types of insurance for township officers and employees. The board of township trustees of any township may negotiate and contract for the purchase of a policy of long-term care insurance for township officers and employees pursuant to section 124.841 [124.84.1] of the Revised Code.

**(B)** If the board procures any insurance policies under this section, the board shall provide uniform coverage under these policies for township officers and full-time township employees and their immediate dependents, and may provide coverage under these policies for part-time township employees and their immediate dependents, from the funds or budgets from which the officers or employees are compensated for services, such policies to be issued by an insurance company duly authorized to do business in this state. Any township officer or employee may refuse to accept the insurance coverage without affecting the availability of such insurance coverage to other township officers and employees ...

**(C)** If any township officer or employee is denied coverage under a health care plan procured under division (B) of this section or if any township officer or employee elects not to participate in the township's health care plan, the township may reimburse the officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of this section that the officer or employee otherwise obtains, but not to exceed an amount equal to the average premium paid by the township for its officers and employees under policies it procures under division (B) of this section.

This section allows reimbursement for the out of pocket costs incurred by an officer or employee that are associated with obtaining coverage for policies described in section (A). It does not, however, extend such reimbursement to family policies described in section (B).

Attorney General Opinion 2005-038 determined that township officer's and employees could be reimbursed for out-of-pocket premium expenses attributable to an officer/employee that are obtained through a spouse's employer. However, the reimbursement through a spouse's plan is limited to the "out-of-pocket premium that the officer or employee incurs," because the policies described in 505.60(A) do not include family coverage. Therefore, the township should not reimburse for premium costs attributable to the spouse or dependents. There is no authority, statutory or otherwise, for reimbursement of the premium costs attributable to an officer/employee's spouse or dependents.

The Township reimbursed a Trustee for the out of pocket premium associated with family coverage as noted below.

**FINDING NUMBER 2007-001  
 (Continued)**

<b>Check #</b>	<b>Check Date</b>	<b>Amount</b>	<b>Allowable Reimbursement</b>	<b>Overpayment</b>
5507	11/12/06	\$1,677.47	\$294.48	\$1,352.16
6760	11/7/07	2,310.24	614.48	1,695.76
<b>Total</b>		<b>\$3,987.71</b>	<b>\$908.96</b>	<b>\$3,047.92</b>

The Township mistakenly believed that it could reimburse its officers/employees for the out of pocket premium associated with family coverage. As stated above, a township may only reimburse an officer/employee for the premium attributable to that officer/employee.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co. (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att’y Gen. No. 80-074.

On August 1, 2008, Douglas Johnson repaid the Township \$3,047.92.

**Officials’ Response:**

We did not receive a response from Officials to the finding above.

**FINDING NUMBER 2007-002**

**Finding for Recovery Repaid Under Audit**

The Township paid \$172 on check numbers 5426 and 5492 to First Financial Bank for charges on the Township’s credit card. These charges were to Ohio State Park for golf green fees and cart rentals on September 8, 2006, September 15, 2006, and September 24, 2006. No support was attached to the credit card statement for these expenditures. The Township had to contact the vendor to obtain copies of the invoices/receipts.

The Township paid \$6.40 on check number 4589 to First Financial Bank for charges on the Township’s credit card on February 6, 2006. According to management and notation on the invoice, this charge was to Jamie’s Market for cigarettes for jail trustee inmates performing community service for the Township.

The Township paid \$191.84 on check numbers 6156, 6348, 6746, and 4785 to First Financial Bank for charges on the Township’s credit cards on May 31, 2007, July 10, 2007, November 7, 2007, and April 9, 2006 respectively. These charges were to United States Postal Service, Hamilton-Fairfield Dodge, Gateway Subway, and to the Hon Co. Cust. Serv. The credit card statements lacked support for these expenditures. The Township was unable to obtain supporting invoices or receipts.

All three Trustees approved these expenditures during the monthly Trustees meetings. The Fiscal Officer and Trustees signed the checks.

**FINDING NUMBER 2007-002  
(Continued)**

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper "Public Purpose" states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Fredrick Stitsinger, Trustee, and OTARMA, Fredrick Stitsinger's bonding company; and Elizabeth Brosius, Fiscal Officer, and OTARMA, Elizabeth Brosius's bonding company, jointly and severally, in the amount of \$370.24.

On July 9, 2008, Fredrick Stitsinger repaid the Township \$170.90.

On August 1, 2008, Elizabeth Brosius repaid the Township \$6.40 in cash and on August 4, 2008, Elizabeth Brosius repaid the Township \$191.84.

**Officials' Response:**

The Township Fiscal Officer and Administrator met with representatives of the State Auditor's Office in the afternoon of November 21, 2008. All audit information was reviewed and responses provided. There was concern expressed about the wording in paragraph six, especially since there was reference to the foregoing facts which did not include a description of what happened. The State Auditor representatives stated that due to the upcoming holiday week the state offices would be closed and the Township had until Tuesday December 2, 2008 to provide any rebuttal or response. The Township decided to add clarification and provide response to State Audit Finding No. 2007-002.

The Board of Trustees and Fiscal Officer completely understand and strongly support the provisions of State v. Hagerman 155 Ohio St. 320 (1951) and Auditor of State Bulletin 2003-005 Expenditure of Public Funds as outlined in the Audit Report. The Township has taken measures to insure timely submission of receipts for items charged on the Township Credit Card in order to have proper documentation. There were charges to the credit card made on the dates of September 8, 15 and 24, 2008 to the Ohio State Park System. At first this was believed to be training reservations or workshops held at State Park facilities for volunteer firefighters. Follow up documentation was not received. When asked for this information, this opinion was stated but the Township also indicated it would track down the receipts and the purpose of said expenditures instead of just letting this issue pass as a lack of documentation and subsequent criticism by the State Auditor's Office.

The Township Administration did ascertain the location and purpose of these credit charges totaling \$172.00. An innocent error was made by Trustee Stitsinger who accidentally used the Township Credit Card to charge for golf greens fees for his private use. He thought he had used his personal credit card which is similar. When informed of these credit card charges, he immediately checked his statements and upfront admitted this was a private expenditure as he inadvertently used the wrong credit card. He agreed to reimburse the Township right away and apologized for the mistake. This information was passed on to the State Auditor on site. There was no culpable mental state or intention to improperly or illegally expend Township funds. Trustee Stitsinger immediately took responsibility upon discovery of his error. There is no disagreement with the position the Township did not get the proper follow up documentation. As mentioned, new procedures have been instituted to address this point.

#### FINDING NUMBER 2007-003

##### Noncompliance Citation

**Ohio Rev. Code, Section 5705.41 (B)**, prohibits a subdivision from expending money unless it has been lawfully appropriated.

As further discussed in the Auditor of State Bulletin 2000-008, the Fiscal Officer shall record appropriations in accordance with the terms and conditions of the grant or project agreement. In addition, prior to recording the appropriations, Ohio Revised Code Section 5705.40 requires the legislative authority to pass a resolution amending its appropriation measure.

The Fiscal Officer inadvertently failed to record the Community Development Block Grant (CDBG) disbursed on behalf of the Township under the Butler County Community Development Program. In addition, the Township did not include, this grant money in the appropriations approved by the Board of Trustees for the fiscal year 2006. However, the Township made adjustments of \$16,200 for the fiscal year 2006 to the audited financial statements for the receipts and disbursements associated with this grant.

Failure to record these items can result in misleading financial statements. We recommend that the Township follow the accounting treatment as prescribed in Auditor of State Bulletin 2000-008 for on-behalf grants.

##### Officials' Response:

We did not receive a response from Officials to the finding above.

#### FINDING NUMBER 2007-004

##### Noncompliance Citation

**Ohio Rev. Code, Section 5705.36(A)(4)**, requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation. In 2007, the Cemetery Fund (Fund 2041) and Road District Fund (Fund 2141) had appropriations exceeding unencumbered balance plus actual receipts of \$36,508 and \$34,365 respectively. In 2006, the General Fund had appropriations exceeding unencumbered balance plus actual receipts of \$2,179. While the Trustees reviewed budgetary information, the information did not include variances between estimated receipts and appropriations.

Failure to properly monitor estimated receipts and appropriations may lead to misleading financial statements and overspending. We recommend that the Township monitor estimated receipts throughout the year, perform a comparison of these estimated receipts to appropriations, and obtain a reduced amended certificate if receipts will be less than the current appropriations.

##### Officials' Response:

We did not receive a response from Officials to the finding above.



**FINDING NUMBER 2007-005**

**Noncompliance Citation/Material Weakness**

**Ohio Admin. Code, Section 117-2-01(D)**, states that when designing the public office's system of internal control and the specific control activities, management should consider ensuring that all transactions are properly authorized in accordance with management's policies, ensuring that accounting records are properly designed, and verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records. Also, accurate reconciliations are a basic and essential internal control component for sound fiscal management. Township officials rely on accurate reconciliations to make sound financial decisions.

The Township lacked management oversight in the proper recording of intergovernmental revenue, grant revenue, cable franchise fees, and reconciliations. The Township incorrectly posted:

- County levied motor vehicle tax in the Permissive Motor Vehicle Fund to the Taxes line item instead of the Intergovernmental line item totaling \$16,082 in 2007 and \$16,094 in 2006.
- Cable franchise fees in the General Fund to the Miscellaneous line item instead of Licenses, Permits, and Fees totaling \$29,483 in 2007 and \$58,910 in 2006.
- State grants in the General Fund to the Miscellaneous line item instead of the Intergovernmental line item totaling \$32,419 in 2006.

Also, the Fiscal Officer reconciled fiscal year-end 2006 financial records before completing year-end transactions. The Fiscal Officer also posted disbursements to the system after completing the reconciliation and before closing out the fiscal year. The Fiscal Officer did not include disbursements written after completing the reconciliation as outstanding checks. This caused the annual financial report to differ by \$29,617 from the year-end reconciliation. The financial activity reported in the annual financial report is correct.

The Township made audit adjustments to the accompanying financial statements for the above items.

The lack of proper management oversight could result in material misstatements relating to financial data. For guidance, the Township should utilize the Ohio Township Handbook. We recommend the Fiscal Officer use due care when posting transactions to the Township financial records. We also recommend that the fiscal officer perform the year-end and month end reconciliations only after processing and posting all activity for the year or month to the accounting system.

**Officials' Response:**

We did not receive a response from Officials to the finding above.

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HANOVER TOWNSHIP  
BUTLER COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2007 AND 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2005-001	ORC Section 5705.41(D) Certification of the availability of funds	No	Partially Corrected – reissued as a Management Letter Citation





**Mary Taylor, CPA**  
Auditor of State

**HANOVER TOWNSHIP**

**BUTLER 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  
DECEMBER 16, 2008**