



Dave Yost • Auditor of State

SULLIVAN TOWNSHIP
ASHLAND COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Sullivan Township
Ashland County
P.O. Box 9
Sullivan, Ohio 44880

To the Board of Trustees:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Opinion on Regulatory Basis of Accounting

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, during 2011 Sullivan Township adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2013, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

May 6, 2013

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$56,090	\$101,931	\$158,021
Charges for Services		20,442	20,442
Licenses, Permits and Fees	5,400	5,780	11,180
Intergovernmental	30,574	108,353	138,927
Earnings on Investments	4	3	7
Miscellaneous	12,563	3,274	15,837
	<u>104,631</u>	<u>239,783</u>	<u>344,414</u>
<i>Total Cash Receipts</i>			
Cash Disbursements			
Current:			
General Government	106,977		106,977
Public Safety		28,052	28,052
Public Works		225,846	225,846
Health	1,500	8,249	9,749
Capital Outlay	2,000	6,744	8,744
Debt Service:			
Principal Retirement		32,578	32,578
	<u>110,477</u>	<u>301,469</u>	<u>411,946</u>
<i>Total Cash Disbursements</i>			
<i>Excess of Cash Receipts Under Cash Disbursements</i>	<u>(5,846)</u>	<u>(61,686)</u>	<u>(67,532)</u>
Other Financing Receipts (Disbursements)			
Transfers In		653	653
Transfers Out	(653)		(653)
Advances In	1,879		1,879
Advances Out		(1,879)	(1,879)
	<u>1,226</u>	<u>(1,226)</u>	<u>0</u>
<i>Total Other Financing Receipts (Disbursements)</i>			
<i>Net Change in Fund Cash Balances</i>	(4,620)	(62,912)	(67,532)
<i>Fund Cash Balances, January 1</i>	<u>29,058</u>	<u>162,286</u>	<u>191,344</u>
Fund Cash Balances, December 31			
Restricted		99,374	99,374
Unassigned	24,438		24,438
	<u>\$24,438</u>	<u>\$99,374</u>	<u>\$123,812</u>
<i>Fund Cash Balances, December 31</i>			

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

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$59,272	\$107,945	\$167,217
Charges for Services		34,490	34,490
Licenses, Permits and Fees	6,155	3,750	9,905
Intergovernmental	40,323	134,258	174,581
Earnings on Investments	15	7	22
Miscellaneous	24,026	1,750	25,776
<i>Total Cash Receipts</i>	<u>129,791</u>	<u>282,200</u>	<u>411,991</u>
Cash Disbursements			
Current:			
General Government	125,374	436	125,810
Public Safety	6,256	32,841	39,097
Public Works		160,396	160,396
Health	1,481	3,165	4,646
Conservation-Recreation	1,000		1,000
Capital Outlay	5,430	45,593	51,023
Debt Service:			
Principal Retirement		32,578	32,578
<i>Total Cash Disbursements</i>	<u>139,541</u>	<u>275,009</u>	<u>414,550</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(9,750)</u>	<u>7,191</u>	<u>(2,559)</u>
Other Financing Receipts (Disbursements)			
Transfers In		8,995	8,995
Transfers Out	(8,995)		(8,995)
Advances In		1,879	1,879
Advances Out	(1,879)		(1,879)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(10,874)</u>	<u>10,874</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	<u>(20,624)</u>	<u>18,065</u>	<u>(2,559)</u>
<i>Fund Cash Balances, January 1</i>	<u>49,682</u>	<u>144,221</u>	<u>193,903</u>
Fund Cash Balances, December 31			
Restricted		162,286	162,286
Unassigned	29,058		29,058
<i>Fund Cash Balances, December 31</i>	<u>\$29,058</u>	<u>\$162,286</u>	<u>\$191,344</u>

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

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

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

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Sullivan Township, Ashland 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 participates in the Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. 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. Deposits

Cash consists of demand deposits and a savings account.

D. Fund Accounting

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

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

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

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

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

Ambulance and Emergency Medical Services Fund - This fund receives property tax money and user fees for Township Ambulance and Emergency Medical Services.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. 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. The Township did not encumber all commitments required by Ohio law.

A summary of 2012 and 2011 budgetary activity appears in Note 3.

F. Fund Balance

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

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (Continued)

1. Nonspendable

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

2. Restricted

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

3. Committed

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

4. Assigned

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

5. Unassigned

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

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

G. Property, Plant, and Equipment

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

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

H. Accumulated Leave

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

2. Equity in Pooled Deposits

The Township maintains a deposit pool all funds use. The Ohio Revised Code prescribes allowable deposits. The carrying amount of deposits at December 31 was as follows:

	2012	2011
Demand deposits	\$123,551	\$191,083
Other time deposits (savings account)	261	261
Total deposits	\$123,812	\$191,344

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. Budgetary Activity

Budgetary activity for the years ended December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
General	\$107,988	\$104,631	(\$3,357)
Special Revenue	253,849	240,436	(13,413)
Total	\$361,837	\$345,067	(\$16,770)

2012 Budgeted vs. Actual Budgetary Basis Expenditures

	Appropriation Authority	Budgetary Expenditures	Variance
General	\$135,282	\$111,130	\$24,152
Special Revenue	412,388	301,469	110,919
Total	\$547,670	\$412,599	\$135,071

2011 Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
General	\$105,431	\$129,791	\$24,360
Special Revenue	254,231	291,195	36,964
Total	\$359,662	\$420,986	\$61,324

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

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

3. Budgetary Activity (Continued)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$159,052	\$148,536	\$10,516
Special Revenue	418,629	275,009	143,620
Total	\$577,681	\$423,545	\$154,136

Contrary to Ohio Rev. Code Section 5705.41(D), the Township did not certify the availability of funds for certain expenditures during 2012 and 2011.

4. Property Tax

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

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

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

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

5. Debt

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan - 2006	\$161,928	0%
Ohio Public Works Commission Loan - 2009	360,207	0%
Total	\$522,135	

The 2006 Ohio Public Works Commission Loan was entered into to finance the Township Road 462 reconstruction and widening project. The project was started in 2005 and completed in 2006. This loan will be repaid in semi-annual installments of \$5,997, with no interest through January 1, 2026. The loan is collateralized by the Township's taxing authority.

The 2009 Ohio Public Works Commission Loan was entered into to finance the reconstruction and widening of Township Road 391. The project was started and completed in 2009. This loan will be repaid in semi-annual installments of \$10,292, with no interest through January 1, 2030. The loan is collateralized by the Township's taxing authority.

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

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

5. Debt (Continued)

Amortization of the above debt is scheduled as follows:

Year ending December 31:	2006 OPWC Loan	2009 OPWC Loan
2013	\$11,995	\$20,583
2014	11,995	20,583
2015	11,995	20,583
2016	11,995	20,583
2017	11,995	20,583
2018-2022	59,975	102,916
2023-2027	41,978	102,916
2028-2030		51,460
Total	<u>\$161,928</u>	<u>\$360,207</u>

6. Retirement System

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 the plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2012.

7. Risk Management

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

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

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

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

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

7. Risk Management (Continued)

Casualty and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2010 (the latest information available), OTARMA retained \$350,000 for casualty claims and \$150,000 for property claims.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2011 and 2010 (the latest information available):

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

At December 31, 2011 and 2010, respectively, the liabilities above include approximately \$9.1 and \$9.9 million of estimated incurred claims payable. The assets above also include approximately \$8.6 and \$9.5 million of unpaid claims to be billed to approximately 938 member governments in the future, as of December 31, 2011 and 2010, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2011, the Township's share of these unpaid claims collectible in future years is approximately \$13,000.

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

Contributions to OTARMA

<u>2012</u>	<u>2011</u>
\$19,083	\$19,579

**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

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

7. Risk Management (Continued)

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

8. Legal Settlements

The Township was a defendant in two lawsuits. One lawsuit went to mediation and was completed on October 11, 2010. The outcome of the mediation was the plaintiffs were awarded \$80,000. The Township's insurance company, Ohio Township Association Risk Management Authority (OTARMA), paid \$10,000, and the Township was required to pay \$25,000 within 30 days of the Mediation. The Township is then to pay \$9,500 over the next four years on October 1 of each year, and a final payment of \$7,000 made by May 1, 2015. As of December 31, 2012, the remaining unpaid balance was \$26,000.

The Township's other lawsuit was resolved by way of agreed settlement on October 20, 2011. The outcome of the settlement was the plaintiffs were awarded \$55,000. The Township's insurance company, Ohio Township Association Risk Management Authority (OTARMA), paid \$7,500, and the Township was required to pay \$13,500 as an initial payment. The Township is then to pay \$9,000 over the next two years on May 1 of each year, and \$8,000 over the following two years on May 1 of each year. As of December 31, 2012, the remaining unpaid balance was \$25,000.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Sullivan Township
Ashland County
P.O. Box 9
Sullivan, Ohio 44880

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Sullivan Township, Ashland County, Ohio, (the Township) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated May 6, 2013 wherein we noted the Township followed accounting financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1, and the Township implemented Governmental Accounting Standards Board Statement No. 54.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. We consider finding 2012-002 described in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-003 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

Township's Response to Findings

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.

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

May 6, 2013

SULLIVAN TOWNSHIP
ASHLAND COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011

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

FINDING NUMBER 2012-001

Certification of Expenditures

Noncompliance

Ohio Rev. Code Section 5705.41(D) provides no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision stating the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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 both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

FINDING NUMBER 2012-001 (Continued)

23.3 percent of expenditures tested were not certified prior to incurring the obligation. It was also found none of the exceptions above were utilized for the items found to be in non-compliance. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balance.

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 purchase commitments received prior approval. To improve control over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, the Fiscal Officer should certify the funds are or will be available prior to the obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Township certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2012-002

Bank Reconciliations

Material Weakness

A necessary step in the internal control over financial reporting is to reconcile the bank balance to the accounting record's cash balance each month. Bank reconciliation means accounting for the differences between the balance of the bank statement(s) and the cash and investment balances according to the Township's records.

The Township's December 31, 2012 bank reconciliation initially showed a bank over book variance of \$4,288; and the Township's December 31, 2011 bank reconciliation initially showed a bank over book variance of \$4,243. After the known errors were adjusted to the financial statements, disbursement reductions of \$256 and \$251 were posted to the 2012 and 2011 financial statements and accounting records to get the bank and book balance to agree.

Our testing revealed these variances consisted of several accounting errors, including, but not limited to, the following:

- At December 31, 2012, \$211 of Internal Revenue Service Penalties and Interest were not recorded on the Township books. This amount was adjusted to the Township's financial statements and accounting records.
- At December 31, 2011, \$28,479 of checks clearing the bank in October and November 2011 were improperly included on the outstanding check list.
- At December 31, 2011, \$12,493 of receipts were improperly included as deposits in transit.
- At December 31, 2011, \$7,561 was shown as Other Reconciling items. However, there was no supporting documentation for this amount. Part of this error resulted from double posting IRS payments in the amount of \$3,960 and posting a \$32 bank charge that was not on the bank statement. These amounts were adjusted to the Township's financial statements and accounting records.

FINDING NUMBER 2012-002 (Continued)

We also noted during 2012 and 2011, bank reconciliations were not always completed in a timely manner, as many of the months' reconciliations had a system run date in December.

Without complete and accurate monthly bank reconciliations, the Township's internal control is significantly weakened which could hinder management's timely detection of errors or irregularities. The Township should perform complete monthly bank reconciliations in a timely manner. Copies of the monthly bank reconciliations and listing of outstanding checks and other reconciling items should be provided to the Board each month for review. All unreconciled differences should be resolved as quickly as possible so they are not carried forward month-to-month and all reconciling matters should be appropriately documented.

FINDING NUMBER 2012-003

Transaction Posting

Significant Deficiency

Our receipt and expenditure testing revealed the Township recorded several transactions incorrectly. Mispostings identified included, but were not limited, to the following:

- In 2012, \$8,905 and \$13,654 of intergovernmental homestead and rollback and tax replacement receipts were incorrectly posted to General Fund and Road & Bridge Fund property tax receipts, respectively. These amounts were adjusted to the financial statements.
- In 2011, \$11,148 of intergovernmental estate taxes receipts and miscellaneous receipts were incorrectly posted as General Fund licenses, permits and fees. These amounts were adjusted to the financial statements.
- In 2011, \$5,000 of intergovernmental receipts was incorrectly posted as Emergency Medical Services Fund miscellaneous receipts. This amount was adjusted to the financial statements.
- In 2011, \$4,370 of general government disbursements were incorrectly posted as General Fund transfers out. This amount was adjusted to the financial statements.
- In 2011, \$13,139 of general government and public safety disbursements were incorrectly posted as General Fund other financing uses and \$8,727 of public safety disbursements were incorrectly posted as Emergency Medical Services Fund other financing uses. Additionally, in 2012, \$1,774 and \$1,362 of public works disbursements were incorrectly posted as Gasoline Tax Fund and Road & Bridge Fund other financing uses, respectively. These amounts were adjusted to the financial statements.
- In 2012 and 2011, \$32,578 of debt service payments were incorrectly posted to Gasoline Tax Fund public works disbursements. These amounts were adjusted to the financial statements.

The Township should review the Township's Handbook and exercise due care when posting transactions to help ensure receipts and disbursements are posted to the correct fund and account. Additionally, the Township's Board should review monthly receipt and disbursement activity reports to help ensure transactions are properly accounted for and classified. This will help more accurately reflect the Township's financial activity and will aid in more accurate financial reporting.

Officials' Response: The Township will take appropriate action to correct the findings.

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**SULLIVAN TOWNSHIP
ASHLAND COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2010-001	26 CFR Section 1.6041-2 – The first payroll for 2009 was never entered into the system, resulting in an understatement of wages reported on the employee W-2s.	Yes	Finding no longer valid.
2010-002	Ohio Rev. Code Section 5705.42 – OPWC transactions were not recorded to the Township's records.	Yes	Finding no longer valid.
2010-003	Ohio Rev. Code Section 5705.41(D) – 41 percent of expenditures tested were not certified prior to incurring the obligation.	No	Repeated as Finding 2012-001.
2010-004	Ohio Rev. Code Section 5705.36(A)(4) – Appropriations exceeded actual resources in various funds during the audit period.	Finding no longer valid.	Finding no longer valid.
2010-005	Material Weakness – Transaction Posting – There were various receipts and expenditures not posted properly.	No	Repeated as Finding 2012-003.
2010-006	Material Weakness – Bank Reconciliations – The bank reconciliation was not accurate as of December 31, 2010 or 2009.	No	Repeated as Finding 2012-002.
2010-007	Material Weakness – Ohio Public Employees Retirement System Payments – Various issues were noted with the OPERS withholdings and payments during the audit period.	Yes	Finding no longer valid.

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Dave Yost • Auditor of State

SULLIVAN TOWNSHIP

ASHLAND COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 28, 2013**