



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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PAINT TOWNSHIP
HIGHLAND COUNTY

REGULAR AUDIT

For the Years Ended December 31, 2012 and 2011
Fiscal Years Audited Under GAGAS: 2012 and 2011



Dave Yost • Auditor of State

Board of Trustees
Paint Township
13149 Barrett Mill Road
Bainbridge, Ohio 45612

We have reviewed the *Independent Auditor's Report* of Paint Township, Highland County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2011 through December 31, 2012. 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.

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. Paint Township is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

October 29, 2013

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Paint Township
Highland County, Ohio
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For the Fiscal Years Ended December 31, 2012 and 2011

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Paint Township
Highland County
13149 Barrett Mill Road
Bainbridge, Ohio 45612

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Paint Township, Highland County, (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 Paint Township, Highland County, as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

Emphasis of Matter

As described in Note 8 to the financial statements, during 2011, the 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 August 26, 2013, on our consideration of the Township's internal control over financial reporting and on 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.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
August 26, 2013

Paint Township, Highland County
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
Governmental Funds
For the Year Ended December 31, 2012

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Permanent	
Cash Receipts				
Property and Other Local Taxes	\$ 55,209	\$ 200,691	\$ -	\$ 255,900
Intergovernmental	46,358	156,543	-	202,901
Charges for Services	33,682	-	-	33,682
Interest	869	-	-	869
Miscellaneous	3,804	742	-	4,546
<i>Total Cash Receipts</i>	<u>139,922</u>	<u>357,976</u>	<u>-</u>	<u>497,898</u>
Cash Disbursements				
Current:				
General Government	81,949	286	-	82,235
Public Safety	-	248,100	-	248,100
Public Works	-	245,640	-	245,640
Health	12,000	-	-	12,000
Other	13,383	-	-	13,383
<i>Total Cash Disbursements</i>	<u>107,332</u>	<u>494,026</u>	<u>-</u>	<u>601,358</u>
<i>Net Change in Fund Cash Balances</i>	32,590	(136,050)	-	(103,460)
<i>Fund Cash Balances, January 1</i>	<u>89,778</u>	<u>217,084</u>	<u>18,400</u>	<u>325,262</u>
Fund Cash Balances, December 31				
Nonspendable	-	-	18,400	18,400
Restricted	-	81,034	-	81,034
Unassigned	122,368	-	-	122,368
<i>Fund Cash Balances, December 31</i>	<u>\$ 122,368</u>	<u>\$ 81,034</u>	<u>\$ 18,400</u>	<u>\$ 221,802</u>

See accompanying notes to the financial statements.

Paint Township, Highland County
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
 Governmental Funds
 For the Year Ended December 31, 2011

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Permanent	
Cash Receipts				
Property and Other Local Taxes	\$ 54,552	\$ 193,855	\$ -	\$ 248,407
Intergovernmental	49,354	152,113	-	201,467
Charges for Services	13,324	-	-	13,324
Interest	849	-	188	1,037
Miscellaneous	1,055	1,336	-	2,391
<i>Total Cash Receipts</i>	<u>119,134</u>	<u>347,304</u>	<u>188</u>	<u>466,626</u>
Cash Disbursements				
Current:				
General Government	86,134	-	-	86,134
Public Works	55,827	158,183	-	214,010
Health	12,154	-	296	12,450
Other	-	3,896	-	3,896
<i>Total Cash Disbursements</i>	<u>154,115</u>	<u>162,079</u>	<u>296</u>	<u>316,490</u>
<i>Excess of Cash Receipts Over /(Under) Cash Disbursements</i>	<u>(34,981)</u>	<u>185,225</u>	<u>(108)</u>	<u>150,136</u>
Other Financing Sources (Uses)				
Transfers In	-	1,500	-	1,500
Transfers Out	(1,500)	-	-	(1,500)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,500)</u>	<u>1,500</u>	<u>-</u>	<u>-</u>
<i>Net Change in Fund Cash Balances</i>	<u>(36,481)</u>	<u>186,725</u>	<u>(108)</u>	<u>150,136</u>
<i>Fund Cash Balances, January 1</i>	<u>126,259</u>	<u>30,359</u>	<u>18,508</u>	<u>175,126</u>
Fund Cash Balances, December 31				
Nonspendable	-	-	18,400	18,400
Restricted	-	217,084	-	217,084
Unassigned	89,778	-	-	89,778
<i>Fund Cash Balances, December 31</i>	<u>\$ 89,778</u>	<u>\$ 217,084</u>	<u>\$ 18,400</u>	<u>\$ 325,262</u>

See accompanying notes to the financial statements.

**PAINT TOWNSHIP
HIGHLAND 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 the Paint Township, Highland County, Ohio (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance and cemetery maintenance. The Township contracts with the City of Hillsboro for fire services.

The Township is part of the Highland County Joint Hospital District, a jointly governed organization established for the public purpose of better providing for the health and welfare of the people primarily of Highland County. Trustees from each of the 17 townships of Highland County constitute the Highland County Joint Hospital Board of Trustees who appoint the Hospital Board of Governors which is composed of one member from each township and three at-large members.

The Township participates in the Ohio Township Risk Management Authority (OTARMA) which is an insurance risk-sharing pool available to Ohio Townships. Note 6 provides additional information regarding 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. The 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 deposits all available funds in an interest earning checking account at a local commercial bank. The Permanent Funds are maintained in certificates of deposit at local commercial banks. All deposits are valued 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 the 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 Fund:

**PAINT TOWNSHIP
HIGHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Special Revenue Funds (continued)

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

3. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Roads, Beaver, and Hulitt cemetery bequests were bequeathed to the Township for the general upkeep of the specified cemeteries.

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. 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 as required by 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:

1. Nonspendable

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

**PAINT TOWNSHIP
HIGHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balance (continued)

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 acquisition of property, plant and equipments when paid. The accompanying financial statements do not report these items as assets.

2. EQUITY IN POOLED CASH

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

	2012	2011
Demand Deposits	\$ 203,402	\$ 306,862
CD	18,400	18,400
Total	\$ 221,802	\$ 325,262

Deposits: Deposits were insured by the Federal Depository Insurance Corporation for \$250,000, any excess over \$250,000 was covered by the financial institutions' public entity deposit pool.

**PAINT TOWNSHIP
HIGHLAND COUNTY**

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

3. BUDGETARY ACTIVITY

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

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 105,850	\$ 139,922	\$ 34,072
Special Revenue	346,285	357,976	11,691
Permanent	400	-	(400)
Total	\$ 452,535	\$ 497,898	\$ 45,363

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 200,494	\$ 107,332	\$ 93,162
Special Revenue	558,067	494,026	64,041
Permanent	438	-	438
Total	\$ 758,999	\$ 601,358	\$ 157,641

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 102,940	\$ 119,134	\$ 16,194
Special Revenue	351,915	348,804	(3,111)
Permanent	650	188	(462)
Total	\$ 455,505	\$ 468,126	\$ 12,621

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 233,803	\$ 155,615	\$ 78,188
Special Revenue	377,233	162,079	215,154
Permanent	796	296	500
Total	\$ 611,832	\$ 317,990	\$ 293,842

**PAINT TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 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 property owner elects to pay semiannually, the first half is due December 31. The second half payment is due to the following June 20.

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

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

5. RETIREMENT SYSTEM

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

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.

6. 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.

**PAINT TOWNSHIP
HIGHLAND COUNTY**

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

6. RISK MANAGEMENT (Continued)

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. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2012, OTARMA retained \$350,000 for casualty claims and \$250,000 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Assets	\$34,771,270	\$35,086,165
Liabilities	<u>(9,355,082)</u>	<u>(9,718,792)</u>
Net Assets	<u>\$25,416,188</u>	<u>\$25,367,373</u>

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$8.7 and \$9.1 million of estimated incurred claims payable. The assets above also include approximately \$7.96 and \$8.6 million of unpaid claims to be billed to approximately 944 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Township's share of these unpaid claims collectible in future years is approximately \$2,000.

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	
2012	\$3,966
2011	\$4,026
2010	\$2,811

**PAINT TOWNSHIP
HIGHLAND COUNTY**

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

6. 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.

7. COMPLIANCE

Contrary to Ohio Revised Code section 5705.41(D), the Township did not properly use purchase orders.

8. FUND BALANCES

The Township implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Township is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on the fund balance for the general, special revenue and permanent funds are presented below:

Fund Balances	General	Special Revenue Funds	Permanent Funds	Total Governmental Funds
12/31/2012				
Nonspendable				
Cemetery	\$0	\$0	\$18,400	\$18,400
Restricted for				
Motor Vehicle & License	0	42,191	0	42,191
Gas Tax	0	32,769	0	32,769
Road and Bridge	0	6,074	0	6,074
Total Restricted	<u>0</u>	<u>81,034</u>	<u>0</u>	<u>81,034</u>
Unassigned	<u>122,368</u>	<u>0</u>	<u>0</u>	<u>122,368</u>
Total Fund Balances	<u>\$122,368</u>	<u>\$81,034</u>	<u>\$18,400</u>	<u>\$221,802</u>
12/31/2011				
Nonspendable				
Cemetery	\$0	\$0	\$18,400	\$18,400
Restricted for				
Motor Vehicle & License	0	6,288	0	\$6,288
Gas Tax	0	35,091	0	35,091
Road and Bridge	0	54,135	0	54,135
Fire	0	121,570	0	121,570
Total Restricted	<u>0</u>	<u>217,084</u>	<u>0</u>	<u>217,084</u>
Unassigned	<u>89,778</u>	<u>0</u>	<u>0</u>	<u>89,778</u>
Total Fund Balances	<u>\$89,778</u>	<u>\$217,084</u>	<u>\$18,400</u>	<u>\$325,262</u>



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

www.bhscpas.com

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Paint Township
Highland County
13149 Barrett Mill Road
Bainbridge, Ohio 45612

To the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Paint Township, Highland County, (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 August 26, 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, described in Note 1 and implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but 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 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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-001 described in the accompanying schedule of findings to be a material weakness.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-001 and 2012-002.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control testing 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.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
August 26, 2013

**PAINT TOWNSHIP
HIGHLAND COUNTY
DECEMBER 31, 2012 AND 2011
SCHEDULE OF FINDINGS**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-001

Material Noncompliance/Material Weakness

Ohio Administrative Code, Section 117-2-02(A), provides that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analysis, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

Ohio Administrative Code, Section 117-2-02(D), states all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should in part include the following:

Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

The Township did not post several transactions to the proper account codes and therefore, they were reported in an incorrect account classification, by material amounts, on the financial statements causing reclassifications and adjustments to the following accounts:

- Intergovernmental Revenue
- Property Tax Revenue
- Cash Fund Balance

In addition the accounting records lacked the following information:

- The cash journal did not contain purpose of the receipt or disbursement, only the payer and payee name.
- The account code and purchase order numbers were not recorded in the cash journal.
- Errors were noted in the cash journal concerning check numbers.
- Receipts journal and appropriation ledgers contained several years and/or accounts on the same page.
- Estimated receipts were not entered in the receipts journal and a declining balance was not maintained.
- Purchase orders, encumbrances, and a running unencumbered balance were not always recorded in the appropriation ledger.

Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Township funds, 2) reduces the Board's ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the financial statements will be misstated. We recommend that the fiscal officer review the chart of accounts to assure that items are being posted to the proper funds and account codes.

To help strengthen the Township's internal control structure and reduce the likelihood of undetected errors, the Board should review the accounting records and financial statements to determine accuracy and to assure themselves that proper procedures are followed by the Fiscal Officer. We also recommend that the Fiscal Officer review the township manual and post transactions in accordance with the chart of accounts provided in the township manual. Due care should be taken in maintaining the records in order to ensure the year-end financial statements reflect the appropriate sources of the Township's receipts and expenditures.

Client Response: The Township started using UAN during 2012, which will eliminate the errors associated with manual record keeping.

**PAINT TOWNSHIP
HIGHLAND COUNTY
DECEMBER 31, 2012 AND 2011
SCHEDULE OF FINDINGS**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-002

Material Noncompliance

Ohio Rev. Code, Section 5705.41 (D) states that no orders or contracts involving the expenditure 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.

This section also provides two “exceptions” to the above requirements:

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

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

- B. 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.
- C. 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 one particular time for a particular line-item appropriation account.

The Fiscal Officer’s certification was not utilized for any disbursement made by the Township. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Every effort should be made by the Township to properly utilize the encumbrance method of accounting by certifying funds prior to making a purchase obligation.

The Township should certify purchases to which 5705.41 (D) applies. The most convenient method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Client Response: The Township started using UAN during 2012, and will correctly use purchase orders from here on out.

**PAINT TOWNSHIP
HIGHLAND COUNTY
DECEMBER 31, 2012 AND 2011**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2010-001	OAC 117-2-02(A) – maintenance of accounting system and accounting records	No	Reissued as 2012-001
2010-002	ORC Section 5705.41(D) - properly encumbering funds	No	Reissued as 2012-002
2010-003	ORC Section 5575.01 – competitive bidding procedures	Yes	Finding no longer valid



Dave Yost • Auditor of State

PAINT TOWNSHIP

HIGHLAND 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
NOVEMBER 12, 2013**