



Mary Taylor, CPA
Auditor of State

**GASPER TOWNSHIP
PREBLE COUNTY**

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Mary Taylor, CPA
Auditor of State

Gasper Township
Preble County
4195 Paint Creek Road
Eaton, Ohio 45320

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

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Auditor of State

October 8, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Gasper Township
Preble County
4195 Paint Creek Road
Eaton, Ohio 45320

To the Board of Trustees:

We have audited the accompanying financial statements of Gasper Township, Preble 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 processed its financial transactions with the Auditor of State's Uniform Accounting Network (UAN) from October 1, 2007, through December 31, 2007. *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.

The special revenue funds exclude cash receipts, disbursements and cash balances related to the Gasper Township Fire and Rescue Association account used for Fire Department donations and fund raisers during 2006 and 2007. We were unable to determine the amounts of the omitted account. We believe excluding this account is misleading since the Gasper Township Fire and Rescue Association provides services exclusively to the Township, and therefore, is a blended component unit.

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, except for the omission from the special revenue funds of the 2006 and 2007 cash activity described in the third paragraph, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Gasper Township, Preble 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 October 8, 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

October 8, 2008

**GASPER TOWNSHIP
PREBLE 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>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Other Local Taxes	\$94,642	\$201,790	\$296,432
Charges for Services		10,173	10,173
Intergovernmental	158,352	160,909	319,261
Earnings on Investments	662	1,345	2,007
Miscellaneous	18	26,807	26,825
	<u>253,674</u>	<u>401,024</u>	<u>654,698</u>
Cash Disbursements:			
Current:			
General Government	83,063		83,063
Public Safety		124,925	124,925
Public Works		139,055	139,055
Capital Outlay		82,273	82,273
Debt Service:			
Redemption of Principal		72,042	72,042
Interest and Other Fiscal Charges		6,797	6,797
	<u>83,063</u>	<u>425,092</u>	<u>508,155</u>
Total Receipts Over/(Under) Disbursements	<u>170,611</u>	<u>(24,068)</u>	<u>146,543</u>
Other Financing Receipts / (Disbursements):			
Transfers-In		30,364	30,364
Transfers-Out	(30,364)		(30,364)
	<u>(30,364)</u>	<u>30,364</u>	<u>0</u>

**GASPER TOWNSHIP
PREBLE 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**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Other Local Taxes	\$90,665	\$167,640	\$258,305
Charges for Services		15,961	15,961
Intergovernmental	33,440	161,080	194,520
Earnings on Investments	477	844	1,321
Miscellaneous	18	259	277
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	124,600	345,784	470,384
Cash Disbursements:			
Current:			
General Government	91,364		91,364
Public Safety		101,317	101,317
Public Works		129,650	129,650
Capital Outlay	6,165	58,310	64,475
Debt Service:			
Redemption of Principal	20,000	63,242	83,242
Interest and Other Fiscal Charges		7,942	7,942
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	117,529	360,461	477,990
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>
	7,071	(14,677)	(7,606)
Other Financing Receipts / (Disbursements):			
SCBA Loan Proceeds		41,298	41,298
Pole Barn Loan Proceeds		26,110	26,110
Sale of Fixed Assets		1,475	1,475
Advances-In	46,000	46,000	92,000
Advances-Out	(46,000)	(46,000)	(92,000)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	0	68,883	68,883
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	7,071	54,206	61,277
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	33,974	63,134	97,108
Fund Cash Balances, December 31	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$41,045	\$117,340	\$158,385

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

**GASPER TOWNSHIP
PREBLE 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 Gasper Township, Preble 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, fire protection and emergency medical services. The Township contracts with Camden-Somers Fire & Rescue to provide fire and emergency medical 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

Township funds are pooled in a checking account with a local commercial bank.

D. Fund Accounting

The Township uses fund accounting to segregate cash and deposits 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:

**GASPER TOWNSHIP
PREBLE COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

Motor Vehicle License Tax Fund - This fund receives gasoline tax money to pay for maintaining and repairing Township roads and motor vehicles.

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.

Fire & EMS Fund - This fund receives levy money to provide fire and emergency medical services to the residents of the Township.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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. The Township canceled \$43,441 in encumbrances at December 31, 2006, and \$449 in encumbrances at December 31, 2007, and re-encumbered these amounts in the subsequent years against current appropriations. The Township did not properly encumber all commitments required by Ohio law.

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.

**GASPER TOWNSHIP
PREBLE COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

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.

2. Equity in Pooled Cash and Deposits

The Township maintains a cash and deposits 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	\$304,928	\$158,385

Deposits: Deposits are insured by the Federal Depository Insurance Corporation (FDIC), or collateralized by securities specifically pledged by the financial institution to the Township.

Deposits were not insured or sufficiently collateralized, contrary to Ohio law. Beginning in May 2007 the Township's checking account balance exceeded FDIC and pledged collateral coverage of \$300,000. The largest balance in excess of FDIC and pledged collateral coverage of \$47,108 occurred on December 5, 2007.

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	\$108,489	\$253,674	\$145,185
Special Revenue	358,353	431,388	73,035
Total	\$466,842	\$685,062	\$218,220

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$128,732	\$113,427	\$15,305
Special Revenue	427,245	425,092	2,153
Total	\$555,977	\$538,519	\$17,458

**GASPER TOWNSHIP
PREBLE COUNTY**

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

3. Budgetary Activity (Continued)

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$108,489	\$124,600	\$16,111
Special Revenue	344,348	414,667	70,319
Total	\$452,837	\$539,267	\$86,430

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$142,462	\$117,529	\$24,933
Special Revenue	411,700	360,461	51,239
Total	\$554,162	\$477,990	\$76,172

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.

**GASPER TOWNSHIP
PREBLE COUNTY**

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

5. Debt

Debt outstanding at December 31, 2007 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Fire Truck Note	\$82,265	4.5%
SCBA Note	20,641	5.2%
Total	<u>\$102,906</u>	

The Township borrowed \$177,020 on September 18, 2003, to purchase a new fire truck. The Township signed a promissory note to the bank for this loan. This promissory note required seven annual payments of \$30,114 commencing September 18, 2004, to be paid out of the Fire & EMS Fund. The new fire truck is pledged as collateral.

The Township borrowed \$41,298 on December 21, 2006, to purchase new SCBA (self-contained breathing apparatus) units. The Township signed a promissory note to the bank for this loan. This promissory note required four semi-annual payments of \$10,911 commencing April 21, 2007, to be paid out of the Fire & EMS Fund. The promissory note is unsecured.

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

Year ending December 31:	<u>Fire Truck</u>	<u>SCBA</u>
2008	\$30,114	\$21,822
2009	30,114	
2010	30,114	
Total	<u>\$90,342</u>	<u>\$21,822</u>

The Township borrowed \$26,110 on December 21, 2006, to finance the construction of a new pole barn. The Township signed a promissory note to the bank for this loan. The loan was paid in full during 2007.

The Township had a pick-up truck loan. The outstanding principal balance at December 31, 2005, was \$6,117. This loan was paid in full during 2006.

The Township had a fire station loan. The outstanding principal balance at December 31, 2005, was \$53,008. This loan was paid in full during 2006.

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.

**GASPER TOWNSHIP
PREBLE COUNTY**

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

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 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.

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.

**GASPER TOWNSHIP
PREBLE COUNTY**

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

7. Risk Management (Continued)

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:

	<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 \$3,743. 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.

<u>Contributions to OTARMA</u>	
2005	\$6,816
2006	\$6,296
2007	\$3,982

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.

**GASPER TOWNSHIP
PREBLE COUNTY**

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

8. Blended Component Unit

The Gasper Township Fire and Rescue Association is a blended component unit of Gasper Township. The Fire and Rescue Association is a legally separate entity and the Township Board of Trustees cannot influence the Association's operations. The Association provided services entirely to the Township for donations and fund raisers in 2006 and 2007. The Township's financial statements do not include the activity of the Association and we were unable to determine the amounts of the omitted account.

9. Noncompliance

Contrary to Ohio Administrative Code, the Township did not maintain complete receipt ledgers during the audit period.



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*

Gasper Township
Preble County
4195 Paint Creek Road
Eaton, Ohio 45320

To the Board of Trustees:

We have audited the financial statements of Gasper Township, Preble County, Ohio (the Township), as of and for the years ended December 31, 2007, and 2006, and have issued our report thereon dated October 8, 2008, which was qualified due to the omission of the activity from the Fire Department account and wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We 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 the 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: 2007-003, 2007-005, and 2007-006.

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, we believe the significant deficiencies described above are also material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated October 8, 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 2007-004.

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 October 8, 2008.

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



Mary Taylor, CPA
Auditor of State

October 8, 2008

**GASPER TOWNSHIP
PREBLE COUNTY**

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

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

FINDING NUMBER 2007-001

Material Noncompliance

Ohio Revised Code, § 505.601, states if a board of township trustees does not procure an insurance policy or group health care services as provided in section 505.60 of the Revised Code, the board of township trustees may reimburse any township officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of section 505.60 of the Revised Code that the officer or employee otherwise obtains, if all of the following conditions are met:

- (A) The board of township trustees adopts a resolution that states that the township has chosen not to procure a health care plan under section 505.60 of the Revised Code and has chosen instead to reimburse its officers and employees for each out-of-pocket premium that they incur for insurance policies described in division (A) of section 505.60 of the Revised Code that they otherwise obtain.
- (B) That resolution provides for a uniform maximum monthly or yearly payment amount for each officer or employee, beyond which the township will not reimburse the officer or employee.
- (C) That resolution states the specific benefits listed in division (A) of section 505.60 of the Revised Code for which the township will reimburse all officers and employees of the township. The township may not reimburse officers and employees for benefits other than those listed in division (A) of section 505.60 of the Revised Code.

Attorney General Opinion 2005-038 determined that township officers 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.

The Township reimbursed Township Officials for family coverage for the years 2006 and 2007 which was in excess of the actual out-of-pocket premium expenses attributable to the township officials in the amount of \$6,986.92 for 2006 and \$5,929.96 for 2007, for a total of \$12,916.88.

Our audits of townships during this audit period have revealed ambiguity in the interpretation of the township reimbursement provisions as demonstrated by various opinions submitted by prosecuting attorneys. In addition, legislation has been introduced and passed by the Ohio House of Representatives to extend reimbursement for township employees and officials for family coverage. Therefore, we will not issue Findings for Recovery for the overpayment for the remainder of the current audit period.

We recommend the Township revise its health care premium reimbursement policy to limit reimbursement to amounts attributable to township officials and employees only, unless and until the legislature passes Am. H.B. No. 458.

Officials' Response:

Officials did not provide a response to this finding.

FINDING NUMBER 2007-002

Material Noncompliance

Ohio Revised Code, § 135.18, states, in part, that the treasurer, before making the initial deposit in a public depository pursuant to an award made under sections 135.01 to 135.21 of the Revised Code, except as provided in section 135.144 of the Revised Code, shall require the institution designated as a public depository to pledge and deposit with the treasurer, as security for the repayment of all public moneys to be deposited in the public depository during the period of designation pursuant to the award, eligible securities of aggregate market value equal to the excess of the amount of public moneys to be at the time so deposited, over and above the portion or amount of such moneys as is at that time insured by the federal deposit insurance corporation or by any other agency or instrumentality of the federal government. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities. Beginning in May 2007 the Township's checking account balance exceeded FDIC and pledged collateral coverage of \$300,000. The largest overage was on December 5, 2007 [balance of \$347,108; overage of \$47,108]. Failure to secure adequate collateral could result in a loss of assets by the Township. We recommend the Township secure adequate collateral throughout the year to cover its deposits.

Officials' Response:

Officials did not provide a response to this finding.

FINDING NUMBER 2007-003

Material Noncompliance/Material Weakness

Ohio Administrative Code, § 117-2-02(A), requires that all local public offices shall maintain an accounting system and accounting records sufficient to enable and identify, assemble, analyze, 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 required by rule 117-2-03 of the Administrative Code. An accounting record that can help achieve these objectives includes a receipts ledger.

Ohio Administrative Code, § 117-2-02(D)(2), states that 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 include the following: receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund. A complete receipts ledger was not maintained for 2006 (there were no entries after September 2006). A receipts ledger was not maintained for the manual financial activity recorded from January through October 2007. This resulted in numerous audit adjustments as noted in Finding 2007-005.

Receipts should be classified by source (taxes or charges for services, for example). Using proper classifications and the proper accounting records can provide the Township with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State. We recommend the Township maintain a complete receipts ledger. The Township can obtain guidance on classifying receipts in the Ohio Township Handbook located on the Auditor of State website.

Officials' Response:

Officials did not provide a response to this finding.

FINDING NUMBER 2007-004

Material Noncompliance

Ohio Revised Code, Section 5705.41(D)(1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

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

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

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. 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.

The Township did utilize Blanket Certificates and Then & Now Certificates. However, 15% of the transactions tested in 2006 and 15% of transactions tested in 2007 were not certified by the fiscal officer at the time the commitment was incurred. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2007-004
 (Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used. Invoices lacking a date should be dated by the Fiscal Officer when received.

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.

Officials' Response:

Officials did not provide a response to this finding.

FINDING NUMBER 2007-005

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed. Management should also ensure the collection and compilation of the data needed for the timely preparation of financial statements, as well as verifying the existence and valuation of assets and liabilities and periodically reconciling them to the accounting records. The Township does not have proper controls and procedures over recording financial activity as evidenced by the following:

- Transfers were reported on the 2006 annual financial report (\$16,510 for the General Fund; \$578 for the Special Revenue Funds). However, there were no transfers of cash during 2006—there were only transfers of appropriations.
- The 2006 appropriation ledger was incomplete—it did not agree with the activity posted to the cash journal.

Fund	Expenditures per Appropriation Ledger	Expenditures per Cash Journal	Difference
General	\$115,240	\$119,486	\$4,246
Motor Vehicle License Tax	40,855	41,394	539
Gas Tax	112,228	113,271	1,043
Road & Bridge	32,758	32,941	183
Fire & EMS	168,962	170,528	1,566

- The purchase of a tractor for \$64,475 in 2006 was incorrectly posted as General Government and Public Works expenditures rather than as Capital Outlay.
- The purchase of SCBA gear for \$36,520 in 2007 was incorrectly posted as a Public Safety expenditure rather than as Capital Outlay.

FINDING NUMBER 2007-005
(Continued)

- The purchase of a mower for \$19,753 in 2007 was incorrectly posted as a Public Works expenditure rather than as Capital Outlay.
- Proceeds from the sale of a truck of \$1,475 in 2006 were not properly classified as Sale of Fixed Assets. The proceeds were included within total Motor Vehicle License Tax Fund receipts.
- In 2007 miscellaneous receipts of \$26,790 were incorrectly posted to Miscellaneous Receipts rather than as Other Financing Sources.
- Proceeds from loans of \$67,408 in 2006 were not properly classified as Loan Proceeds. The proceeds were included within total Road & Bridge Fund and Fire/EMS Fund receipts.
- Loan payments of \$91,184 in 2006 were incorrectly classified as General Government and Public Safety expenditures rather than as debt service expenditures. Loan payments of \$78,839 in 2007 were incorrectly classified as Public Safety and Capital Outlay expenditures rather than as debt service expenditures.
- A personal property tax reimbursement of \$107 in 2007 was incorrectly posted to the Gas Tax Fund; it should have been posted to the General Fund.
- The gross receipts and related county auditor expenditures for real estate tax receipt #2006-37 posted to the General Fund were both overstated by \$2,032.
- During 2006, four tax receipts were posted at net, rather than gross (difference of \$2,181). During 2007, no tax receipts were properly posted at gross (difference of \$24,089).
- In total, \$454,782 in receipts during 2006 and \$102,213 in receipts during 2007 were not properly classified.

Adjustments were posted to the financial statements to correct the above classifications.

The lack of proper management oversight could result in material misstatement relating to financial data. For guidance the Township should utilize the Ohio Township Handbook. To improve record keeping and accountability of financial activity we recommend the following:

- Due care should be taken in completing annual financial reports. The receipts and expenditures as reported on the annual financial report should match the activity posted to the cash journal.
- Only transfers of "cash" between funds should be reported as Transfers In and Transfers Out on the annual financial reports.
- The activity posted to the appropriation ledger should match the activity posted to the cash journal. Periodic reconciliations of the activity posted would help to verify completeness.
- All debt activity and capital outlay expenditures should be properly reported on the annual financial reports.
- All applicable taxes and intergovernmental receipts should be posted at gross, not net. All receipts should be posted to the correct fund and line items.

**FINDING NUMBER 2007-005
(Continued)**

Officials' Response:

Officials did not provide a response to this finding.

FINDING NUMBER 2007-006

Material Weakness

Government Accounting Standards Board Statement No. 14, paragraph 20 states, "Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete."

The Fire and Rescue Association is a legally separate entity and the Township Board of Trustees cannot influence the Association's operations. The Association provided services entirely to the Township for donations and fund raisers in 2006 and 2007 and excluding its activity would cause the Township's financial statements to be misleading. As such, the Gasper Township Fire and Rescue Association is a blended component unit of Gasper Township and its activity should be included in the Township's financial statements. However, the Township's financial statements do not include the activity of the Association and we were unable to determine the amounts of the omitted account.

Failure to record all financial activity for the above mentioned account could result in misappropriation of funds and inaccurate reporting of Township financial activity. We recommend all Gasper Township Fire and Rescue Association receipts and expenditures be accounted for on the Township's financial records. The Gasper Township Fire and Rescue Association records should be reconciled with the bank activity on a monthly basis.

Officials' Response:

Officials did not provide a response to this finding.



Mary Taylor, CPA
Auditor of State

GASPER TOWNSHIP

PREBLE 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 6, 2008**