



Dave Yost • Auditor of State



**BUFFALO TOWNSHIP  
NOBLE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Buffalo Township  
Noble County  
57036 SR 147  
Quaker City, Ohio 43773

To the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements and related notes of Buffalo Township, Noble 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 fair 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.

***Basis for Adverse Opinion on Regulatory Basis of Accounting***

During a prior audit for the period from January 1, 2007 to December 31, 2008, the Township improperly paid salaries for Trustees from the Gasoline Tax Fund, Special Revenue Fund type, in the amount of \$7,776 that should have been paid from the General Fund, in the amount of \$7,776. The Township declined to make this adjustment.

During a prior audit for the period from January 1 2009 to December 31, 2010, the Township paid employees \$3,195 from the Motor Vehicle License Tax Fund, \$150 from the Permissive License Tax Fund and \$7,751 from the Gasoline Tax Fund, Special Revenue Fund types instead of the General Fund, in the amount of \$11,096 for mowing of cemeteries in Buffalo Township and charging road funds and the improper allocation of Trustee salaries and fringes to Gasoline Tax Fund instead of General Fund. The Township declined to make this adjustment.

During the 2011 audit, the Township paid for mowing of cemeteries from Gasoline Tax and Motor Vehicle License Tax Funds in the amounts of \$2,862 and \$537, respectively, improperly allocated Fiscal Officer and Trustee salaries to the Gasoline Tax Fund, in the amount of \$2,576 instead of posting these expenditures to the General Fund, in the amount of \$5,975. Also, the Township posted rollback/homestead receipts to the Gasoline Tax Fund, in the amount of \$1,388 instead of to the General Fund. The Township declined to make this adjustment.

During the 2012 audit, the Township paid for mowing of cemeteries from Gasoline Tax and Motor Vehicle License Tax Funds in the amounts of \$420 and \$3,252, respectively, improperly allocated Fiscal Officer and Trustee salaries to the Gasoline Tax Fund, in the amount of \$2,267 instead of posting these expenditures to the General Fund, in the amount of \$5,939. The Township declined to make this adjustment.

***Opinion on Regulatory Basis of Accounting***

In our opinion, because of the significance of the matters discussed in the *Basis for Adverse Opinion on Regulatory Basis of Accounting*, the financial statements referred to above do not present fairly, in all material respects, the combined cash balances of the Buffalo Township, Noble 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 2 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.

As discussed in Note 10, the Township is experiencing financial difficulties. Management has declined to post the aforementioned adjustments discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraphs, due to the General Fund's cash balance not being sufficient to support these adjustments. Management's plan in regards to these financial difficulties is described in Note 10 to the financial statements. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 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 Council's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

June 19, 2013

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**BUFFALO TOWNSHIP  
NOBLE 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)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$19,020	\$8,485	\$27,505
Intergovernmental	33,103	97,235	130,338
Earnings on Investments	15	35	50
<i>Total Cash Receipts</i>	<u>52,138</u>	<u>105,755</u>	<u>157,893</u>
<b>Cash Disbursements</b>			
Current:			
General Government	20,303		20,303
Public Safety		2,079	2,079
Public Works		98,624	98,624
Debt Service:			
Principal Retirement		9,481	9,481
Interest and Fiscal Charges		1,513	1,513
<i>Total Cash Disbursements</i>	<u>20,303</u>	<u>111,697</u>	<u>132,000</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>31,835</u>	<u>(5,942)</u>	<u>25,893</u>
<b>Other Financing Receipts (Disbursements)</b>			
Other Financing Sources	70		70
<i>Total Other Financing Receipts (Disbursements)</i>	<u>70</u>	<u>0</u>	<u>70</u>
<i>Net Change in Fund Cash Balances</i>	31,905	(5,942)	25,963
<i>Fund Cash Balances, January 1 (restated, note 3)</i>	<u>6,127</u>	<u>115,423</u>	<u>121,550</u>
<b>Fund Cash Balances, December 31</b>			
Nonspendable	0	0	0
Restricted	0	109,481	109,481
Committed	0	0	0
Assigned	0	0	0
Unassigned (Deficit)	38,032	0	38,032
<i>Fund Cash Balances, December 31</i>	<u>\$38,032</u>	<u>\$109,481</u>	<u>\$147,513</u>

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

**BUFFALO TOWNSHIP  
NOBLE 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)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$16,934	\$7,711	\$24,645
Intergovernmental	7,431	99,963	107,394
Earnings on Investments	26	98	124
Miscellaneous		3,582	3,582
<i>Total Cash Receipts</i>	<u>24,391</u>	<u>111,354</u>	<u>135,745</u>
<b>Cash Disbursements</b>			
Current:			
General Government	30,375		30,375
Public Safety		3,541	3,541
Public Works		103,464	103,464
Debt Service:			
Principal Retirement		8,305	8,305
Interest and Fiscal Charges		1,773	1,773
<i>Total Cash Disbursements</i>	<u>30,375</u>	<u>117,083</u>	<u>147,458</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(5,984)</u>	<u>(5,729)</u>	<u>(11,713)</u>
<b>Other Financing Receipts (Disbursements)</b>			
Other Financing Sources	20		20
<i>Total Other Financing Receipts (Disbursements)</i>	<u>20</u>	<u>0</u>	<u>20</u>
<i>Net Change in Fund Cash Balances</i>	(5,964)	(5,729)	(11,693)
<i>Fund Cash Balances, January 1</i>	<u>12,596</u>	<u>120,071</u>	<u>132,667</u>
<b>Fund Cash Balances, December 31</b>			
Nonspendable	0	0	0
Restricted	0	114,342	114,342
Committed	0	0	0
Assigned	0	0	0
Unassigned (Deficit)	6,632	0	6,632
<i>Fund Cash Balances, December 31</i>	<u>\$6,632</u>	<u>\$114,342</u>	<u>\$120,974</u>

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

**BUFFALO TOWNSHIP  
NOBLE 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 Buffalo Township, Noble County (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Villages of Belle Valley, Caldwell, Pleasant City, and Senecaville to provide fire and emergency medical services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. OTARMA is a risk-sharing pool available to Ohio townships for insurance coverage. Note 9 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. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

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

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

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

**BUFFALO TOWNSHIP  
NOBLE COUNTY**

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

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

**D. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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 4.

**E. 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.

**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

**BUFFALO TOWNSHIP  
NOBLE COUNTY**

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

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

**E. Fund Balance (Continued)**

balances also incorporate 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.

**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.

**2. Change in Accounting Principle**

For fiscal year 2011, the Township implemented Government Accounting Standards Board (GASB) Statement No. 54. Implementing GASB Statement No. 54 had no effect on fund balances previously reported.

**3. Restatement of Fund Balances**

For the year ended December 31, 2011, an adjustment resulted in fund balance restatement.

<u>Governmental Funds:</u>	<u>Fund Balances at December 31, 2011</u>	<u>Restatement Amount</u>	<u>Fund Balances at January 1, 2012</u>
General	\$6,632	(\$505)	\$6,127
Special Revenue	114,342	1,081	\$115,423
Total	<u>\$120,974</u>	<u>\$576</u>	<u>\$121,550</u>

The changes in fund balances for the General and Special Revenue are the result of prior audit Findings for Adjustments being made by Fiscal Officer on December 31, 2012.

**BUFFALO TOWNSHIP  
NOBLE COUNTY**

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

**4. Equity in Pooled Deposits and Investments**

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

	<u><b>2012</b></u>	<u><b>2011</b></u>
Demand deposits	<u>\$147,513</u>	<u>\$120,974</u>

**Deposits:** Deposits are insured by the Federal Deposit Insurance Corporation.

**5. 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	\$24,061	\$52,208	\$28,147
Special Revenue	112,300	105,755	(6,545)
Total	<u>\$136,361</u>	<u>\$157,963</u>	<u>\$21,602</u>

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$30,693	\$20,303	\$10,390
Special Revenue	226,643	111,697	114,946
Total	<u>\$257,336</u>	<u>\$132,000</u>	<u>\$125,336</u>

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$24,535	\$24,411	(\$124)
Special Revenue	107,245	111,354	4,109
Total	<u>\$131,780</u>	<u>\$135,765</u>	<u>\$3,985</u>

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$37,131	\$30,375	\$6,756
Special Revenue	227,317	117,083	110,234
Total	<u>\$264,448</u>	<u>\$147,458</u>	<u>\$116,990</u>

Contrary to Ohio Rev. Code Section 5705.41(D), the Township failed to consistently obtain the fiscal officer's prior certification prior to making a purchase commitment.

**BUFFALO TOWNSHIP  
NOBLE COUNTY**

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

**6. 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.

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.

**7. Debt**

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
General Obligation Notes	\$26,689	4.75

The Township issued a general obligation note to finance the purchase of a tractor to be used for Township maintenance.

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

	General Obligation Notes
Year ending December 31:	
2013	\$10,994
2014	10,994
2015	6,413
Total	\$28,401

**8. Retirement Systems**

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' 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.

**BUFFALO TOWNSHIP  
NOBLE COUNTY**

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

**9. 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. 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.

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, 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 \$2,227.

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.



**BUFFALO TOWNSHIP  
NOBLE COUNTY**

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

**9. Risk Management (Continued)**

<u>Contributions to OTARMA</u>	
<u>2012</u>	<u>2011</u>
\$2,917	\$3,324

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.

**10. Financial Difficulties**

At December 31, 2011, the following funds had adjustments which the Township declined to make in the following amounts:

<u>Fund</u>	<u>December 31, 2011 Balance</u>	<u>Adjustments Not Made</u>	<u>Effect on December 31, 2011 Balance</u>
General	\$ 6,632	\$ (23,438)	\$ (16,806)
Special Revenue	114,342	23,795	138,137

At December 31, 2012, the following funds had adjustments which the Township declined to make in the following amounts:

<u>Fund</u>	<u>December 31, 2012 Balance</u>	<u>Adjustments Not Made</u>	<u>Effect on December 31, 2012 Balance</u>
General	\$ 38,032	\$ (29,318)	\$ 8,714
Special Revenue	109,481	29,885	139,366

The Township's General Fund property taxes increased in 2009 due to new tax revenues from the Rocky Express gas pipeline. The Township continues to monitor all expenditures of the General Fund.

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# Dave Yost • Auditor of State

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

Buffalo Township  
Noble County  
57036 St. Route 147  
Quaker City, Ohio 43773

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 the Buffalo Township, Noble 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 June 19, 2013, wherein we noted the Township has adopted Governmental Accounting Standards Board statement No. 54. We also noted the Township followed accounting financial reporting provisions of Ohio Rev. Code Section 117.38 and the Ohio Administrative Code Section 117-2-03 permit, described in Note 1. We issued an adverse opinion on the 2012 and 2011 regulatory financial statements due to the Township declining to make adjustments for mispostings. We also noted the Township is experiencing financial difficulties.

### ***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 Council'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 certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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. We consider Findings 2012-001 through 2012-004 described in the accompanying schedule of findings to be material weaknesses.

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 2012-005 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 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 through 2012-003 and 2012-005.

***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 Council'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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

June 19, 2013

**BUFFALO TOWNSHIP  
NOBLE COUNTY  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2012-001**

**Finding for Adjustment/Noncompliance Citation/Material Weakness**

Ohio Rev. Code Section 505.24(C) sets forth the method by which township Trustees' compensation should be allocated. This Section is amplified by Ohio Attorney General (OAG) Opinion No. 2004-036. This Section requires that compensation of a township trustee must be paid from the Township General Fund or from such other township funds, in such proportions based on the amount of time spent on matters related to the services rendered. In addition, OAG Opinion No. 2004-036 indicates trustees should establish administrative procedures to document the proportionate amount of trustees' salaries chargeable to other township funds based on the portion of time spent on matters related to the services rendered. The "administrative procedures" can be timesheets or a similar method of record keeping, as long as the Trustees document all time spent on township business and the type of service(s) performed, in a manner similar to Trustees paid per diem compensation. If Trustees do not document their time, then no part of salaries may be paid from these other funds.

During the prior 2008 and 2007 audit, the Trustees did not maintain daily timesheets to document work performed for township services and administrative purposes. For 2008, \$7,776 should have been paid out of the General Fund instead of the Gasoline Tax Fund.

During the prior 2010 and 2009 audit, the Trustees did maintain daily timesheets to document work performed for township services and administrative purposes. The allocation made by the Township on township services posted to road funds did not agree to the percentage of time document on township service on the Trustee's timesheets. For 2010 and 2009, \$865 and \$1,166, respectively, should have been paid out of the General Fund instead of the Gasoline Tax Fund according to the Trustees' documentation presented for audit.

Subsequent to the issuance Auditor of State Bulletin 2011-007, the Trustees did not follow the certification requirements for 2012 but continued to document their time on timesheets.

A finding for adjustment is hereby issued against the Buffalo Township General Fund, in the amount of \$9,807, and in favor of the Buffalo Township Gasoline Tax Fund, Special Revenue Fund type, in the amount of \$9,807. The Fiscal Officer has not posted this adjustment to the Township records and therefore, this adjustment is not reflected in the accompanying financial statements.

We recommend the Township review Auditor of State Bulletin 2011-007 and adopt formal administrative procedures regarding documenting the time spent by the Board of Trustees on various duties that will be charged to funds other than the General Fund. Beginning in September 2011, this would include signing a certification of the allocation of payroll by each Trustee for each monthly pay period. The fiscal officer should not distribute the Trustees' salary until such signed certification is obtained.

**FINDING NUMBER 2012-002**

**Finding for Adjustment/Noncompliance Citation/Material Weakness**

Ohio Rev. Code Section 5735.27 (A)(5)(d) requires the funds received from the gasoline excise tax shall be expended by each township to plan, construct, maintain, widen, and reconstruct the public roads and highways within such township.

**BUFFALO TOWNSHIP  
NOBLE COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2012-002 (Continued)**

**Finding for Adjustment/Noncompliance Citation/Material Weakness (Continued)**

In addition, Ohio Constitution Article XII, Section 5a, states that no monies derived from fees, excises, or license taxes relating to registration, operation, or use of vehicles on public highways, or to fuels used for propelling such vehicles, shall be expended for other than costs of administering such laws, statutory refund and adjustments provided therein, payment of highway obligations, costs for construction, reconstruction, maintenance and repair of public highways and bridges and other statutory highway purposes, expense of state enforcement of traffic laws, and expenditures authorized for hospitalization of indigent persons injured in motor vehicle accidents on public highways.

Ohio Rev. Code Section 5705.10(H) provides that money paid into a fund shall be used only for the purposes for which said fund has been established.

During the prior 2010 and 2009 audit, the Township paid employees \$3,195 from the Motor Vehicle License Tax Fund, \$150 from the Permissive License Tax Fund and \$300 from the Gasoline Tax Fund, Special Revenue Fund types, instead of the General Fund, in the amount of \$3,645 for mowing of cemeteries in Buffalo Township.

During the 2012, the Township paid employees \$420 from the Motor Vehicle License Tax Fund and \$3,252 from the Gasoline Tax Fund, Special Revenue Fund types, instead of the General Fund, in the amount of \$3,672 for mowing of cemeteries in Buffalo Township. In 2011, the Township paid employees \$2,862 from the Motor Vehicle License Tax Fund and \$537 from the Gasoline Tax Fund, Special Revenue Fund types, instead of the General Fund, in the amount of \$3,399 for mowing of cemeteries in Buffalo Township.

A finding for adjustment is hereby issued against the Buffalo Township General Fund, in the amount of \$10,716, and in favor of the Buffalo Township Gasoline Tax Fund, in the amount of \$3,582, the Motor Vehicle License Tax Fund, in the amount of \$6,984, and the Permissive License Tax Fund, Special Revenue Fund types, in the amount of \$150. The Fiscal Officer has not posted this adjustment to the Township records and therefore, this adjustment is not reflected in the accompanying financial statements.

**FINDING NUMBER 2012-003**

**Finding for Adjustment/Noncompliance Citation/Material Weakness**

Ohio Rev. Code Section 5735.27 (A)(5)(d) requires the funds received from the gasoline excise tax shall be expended by each township to plan, construct, maintain, widen, and reconstruct the public roads and highways within such township.

In addition, Ohio Constitution Article XII, Section 5a, states that no monies derived from fees, excises, or license taxes relating to registration, operation, or use of vehicles on public highways, or to fuels used for propelling such vehicles, shall be expended for other than costs of administering such laws, statutory refund and adjustments provided therein, payment of highway obligations, costs for construction, reconstruction, maintenance and repair of public highways and bridges and other statutory highway purposes, expense of state enforcement of traffic laws, and expenditures authorized for hospitalization of indigent persons injured in motor vehicle accidents on public highways.

**BUFFALO TOWNSHIP  
NOBLE COUNTY  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2012-003 (Continued)**

**Finding for Adjustment/Noncompliance Citation/Material Weakness (Continued)**

Ohio Rev. Code Section 507.09 sets forth a township fiscal officer's compensation.

Ohio Rev. Code Section 5705.10(H) provides that money paid into a fund shall be used only for the purposes for which said fund has been established.

As the Fiscal Officer's duties and the Trustees' attendance at board meetings are administrative in nature, and the Gasoline Tax Fund may not be used to pay for general administrative services, the Fiscal Officer's salary and benefits and the Trustees' salary associated with attendance at board meetings should therefore be paid from the Township's General Fund.

During the prior 2010 and 2009 audit, the Township paid unallowable expenditures, in the amount of \$5,420, from the Gasoline Tax Fund, Special Revenue Fund type instead of the General Fund, in the amount of \$5,420.

The Fiscal Officer paid the following unallowable expenditures from the Gasoline Tax Fund in 2012:

<b>Unallowable expenditure</b>	<b>Amount</b>
Fiscal Officer's OPERS	\$378
Trustees' OPERS	1,889
	\$2,267

The Fiscal Officer paid the following unallowable expenditures from the Gasoline Tax Fund in 2011:

<b>Unallowable expenditure</b>	<b>Amount</b>
Fiscal Officer's OPERS	\$375
Trustees' Federal withholding and Medicaid	204
Trustees' OPERS	1,997
	\$ 2,576

A finding for adjustment is hereby issued against the Buffalo Township General Fund, in the amount of \$10,263, and in favor of the Buffalo Township Gasoline Tax Fund, Special Revenue Fund type, in the amount of \$10,263. The Fiscal Officer has not posted this adjustment to the Township records and therefore, this adjustment is not reflected in the accompanying financial statements.

**FINDING NUMBER 2012-004**

**Finding for Adjustment and Material Weakness**

The Fiscal Officer did not prepare accurate monthly reconciliations of bank balances to book balances. Monthly bank reconciliations for the period January 1, 2011 thru November 30, 2012 contained adjusting factors throughout the entire audit period which were carried forward instead of being investigated and corrected. The fiscal officer made numerous adjustments in December 2012 in order to reconcile the accounting system to the bank. This necessitated the auditors to perform a proof-of-cash to support the adjustments made by the fiscal officer at the end of the 2012 period.

**BUFFALO TOWNSHIP  
NOBLE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011  
FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

**REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2012-004 (Continued)**

**Finding for Adjustment and Material Weakness (Continued)**

During the proof-of-cash analysis, we were able to identify posting errors in 2012 and 2011. During 2011, the Fiscal Officer posted restricted monies, rollback/homestead, to the Gasoline Tax Fund, Special Revenue Fund type, in the amount of \$1,388 instead of to the General Fund, in the amount of \$1,388. Also, during 2012 and 2011, the Fiscal Officer failed to post interest receipts in the amounts of \$210 and \$357, respectively.

A finding for adjustment is hereby issued against the Buffalo Township Gasoline Tax Fund, Special Revenue Fund type, in the amount of \$1,388 and in favor of the General Fund, in the amount of \$1,388.

Also, a finding for adjustment is hereby issued to increase cash in 2012, in the amount of \$59 to the General Fund, in the amount of \$111 to the Gasoline Tax Fund, in the amount of \$21 to the Motor Vehicle License Tax Fund and in the amount of \$19 to the Road and Bridge Fund. Also, a finding for adjustment is hereby issued to increase cash in 2011, in the amount of \$21 to the General Fund, in the amount of \$261 to the Gasoline Tax Fund, in the amount of \$45 to the Motor Vehicle License Tax Fund and in the amount of \$30 to the Road and Bridge Fund.

The Fiscal Officer has not posted these adjustments to the Township records and therefore, this adjustment is not reflected in the accompanying financial statements.

We recommend the Fiscal Officer perform timely reconciliations and investigate and correct any adjusting factors that occur during a month instead of waiting until the end of the year to correct. In addition we recommend the Board of Trustees review monthly bank reconciliations of the Township and initial/sign them to indicate their review.

**FINDING NUMBER 2012-005**

**Noncompliance Citation and Significant Deficiency**

Ohio Rev. Code Section 5705.41(D)(1) states that no subdivision shall make any contract or give any order involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment 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. Further, contracts and orders for expenditures lacking prior certification should be null and void.

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.



**BUFFALO TOWNSHIP  
NOBLE COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2012-005 (Continued)**

**Noncompliance Citation and Significant Deficiency (Continued)**

**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 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 exceeding an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account and cannot extend beyond the end of the fiscal year. The blanket certificate 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 not properly certify the availability of funds prior to purchase commitment for 100 percent (100%) of the expenditures tested in 2012 and 2011, and there was no evidence that the Township followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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 expenditures exceeding budgetary spending limitations, we recommend that the Township Fiscal Officer certify that the funds are or will be available prior to an obligation being incurred 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 Section 5705.41(D) requires to authorize disbursements. The Township Fiscal Officer should sign the certification prior to the Township incurring a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Township Fiscal Officer should post approved purchase commitments to the proper appropriation code to reduce the available appropriation.

**BUFFALO TOWNSHIP  
NOBLE 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; <b><i>Explain</i></b>
2010-001	ORC 505.24 C Payroll expenditures did not follow timesheets for Township Trustees. For the audits covering 2008-07 and 2010-09, there were Findings for Adjustment in the amounts, \$7,776 and \$2,031, respectively, against the General Fund in favor of the Gasoline Tax Fund, Special Revenue Fund type.	No	Partially Corrected; Repeated as Finding 2012-001 and Management letter: For 2012 and 2011, Trustees did not utilize payroll certifications but continued using timesheets. Prior audit Finding for Adjustments have not been made to the accounting system by the Township.
2010-002	ORC 5705.27(A)(5)(d) expenditures made from improper funds. For audit covering 2010-09, there were Findings for Adjustment, in the amount of \$3,645, against the General Fund in favor of the Special Revenue Fund types, Motor Vehicle License Tax Fund of \$3,195, Permissive Motor Vehicle License Tax Fund of \$150 and Gasoline Tax Fund of \$300.	No	Not Corrected; Repeated as Finding 2012-002: Improper payments made in 2012-11 audit as well as in prior 2010-09 audit.
2010-003	ORC 5705.27(A)(5)(d) employee fringe benefits allocated to improper fund. For audit covering 2010-09, there were Findings for Adjustment, in the amount of \$5,420 against the General Fund in favor of the Gasoline Tax Fund, Special Revenue Fund type.	No	Not Corrected; Repeated as Finding 2012-003: Improper payments made in 2012-11 audit as well as in prior 2010-09 audit.
2010-004	ORC 5705.41(D) for not obtaining fiscal officer's prior certification prior to making a purchase commitment.	No	Not Corrected; Repeated as Finding 2012-005.
2010-005	Fiscal officer prepared monthly reconciliations that contained unsupported reconciling items	No	Partially Corrected; Repeated as Finding 2012-004: Fiscal officer made adjustments in December 2012 reconciliation to reconcile accounting system with bank with insignificant errors.
2010-006	ORC 5705.38(A) fiscal officer made expenditures before the legislative authority passed the Appropriation Resolution.	Yes	Corrected



# Dave Yost • Auditor of State

**BUFFALO TOWNSHIP**

**NOBLE 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  
JULY 16, 2013**