



Mary Taylor, CPA
Auditor of State

**SOMERS TOWNSHIP
PREBLE COUNTY**

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Mary Taylor, CPA

Auditor of State

Somers Township
Preble County
392 West Hendricks Street
Camden, Ohio 45311

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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

July 26, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Somers Township
Preble County
392 West Hendricks Street
Camden, Ohio 45311

To the Board of Trustees:

We have audited the accompanying financial statements of Somers Township, Preble County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 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, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Somers Township, Preble County, as of December 31, 2006 and 2005, 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 July 26, 2007, 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

July 26, 2007

**SOMERS 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>Permanent</u> | <u>Totals (Memorandum Only)</u> |
|---|------------------------|----------------------------|-----------------------|---|
| Cash Receipts: | | | | |
| Property and Other Local Taxes | \$20,545 | \$127,086 | | \$147,631 |
| Licenses, Permits, and Fees | | 20,125 | | 20,125 |
| Intergovernmental | 39,728 | 117,544 | | 157,272 |
| Earnings on Investments | 1,881 | 2,126 | \$36 | 4,043 |
| Miscellaneous | | 30,425 | | 30,425 |
| | <u>62,154</u> | <u>297,306</u> | <u>36</u> | <u>359,496</u> |
| Cash Disbursements: | | | | |
| Current: | | | | |
| General Government | 55,437 | | | 55,437 |
| Public Works | | 300,217 | | 300,217 |
| Health | | 53,196 | 100 | 53,296 |
| Capital Outlay | | 2,781 | | 2,781 |
| | <u>55,437</u> | <u>356,194</u> | <u>100</u> | <u>411,731</u> |
| Total Receipts Over/(Under) Disbursements | <u>6,717</u> | <u>(58,888)</u> | <u>(64)</u> | <u>(52,235)</u> |
| Fund Cash Balances, January 1 | <u>81,860</u> | <u>376,661</u> | <u>3,645</u> | <u>462,166</u> |
| Fund Cash Balances, December 31 | <u>\$88,577</u> | <u>\$317,773</u> | <u>\$3,581</u> | <u>\$409,931</u> |
| Reserve for Encumbrances, December 31 | <u>\$32,762</u> | <u>\$62,466</u> | <u>\$0</u> | <u>\$95,228</u> |

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

**SOMERS 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, 2005**

| | <u>General</u> | <u>Special Revenue</u> | <u>Permanent</u> | <u>Totals (Memorandum Only)</u> |
|---|------------------------|----------------------------|-----------------------|---|
| Cash Receipts: | | | | |
| Property and Other Local Taxes | \$18,640 | \$121,389 | | \$140,029 |
| Licenses, Permits, and Fees | | 15,500 | | 15,500 |
| Intergovernmental | 17,693 | 113,384 | | 131,077 |
| Earnings on Investments | 1,772 | 2,144 | \$35 | 3,951 |
| Miscellaneous | | 13,644 | | 13,644 |
| Total Cash Receipts | <u>38,105</u> | <u>266,061</u> | <u>35</u> | <u>304,201</u> |
| Cash Disbursements: | | | | |
| Current: | | | | |
| General Government | 49,071 | | | 49,071 |
| Public Works | | 98,853 | | 98,853 |
| Health | | 27,791 | 80 | 27,871 |
| Human Services | | 552 | | 552 |
| Capital Outlay | | 62,100 | | 62,100 |
| Total Cash Disbursements | <u>49,071</u> | <u>189,296</u> | <u>80</u> | <u>238,447</u> |
| Total Receipts Over/(Under) Disbursements | <u>(10,966)</u> | <u>76,765</u> | <u>(45)</u> | <u>65,754</u> |
| Other Financing Receipts / (Disbursements): | | | | |
| Transfers-In | | 5,690 | | 5,690 |
| Transfers-Out | | (5,690) | | (5,690) |
| Total Other Financing Receipts / (Disbursements) | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements | <u>(10,966)</u> | <u>76,765</u> | <u>(45)</u> | <u>65,754</u> |
| Fund Cash Balances, January 1 | <u>92,826</u> | <u>299,896</u> | <u>3,690</u> | <u>396,412</u> |
| Fund Cash Balances, December 31 | <u>\$81,860</u> | <u>\$376,661</u> | <u>\$3,645</u> | <u>\$462,166</u> |
| Reserve for Encumbrances, December 31 | <u>\$797</u> | <u>\$12,211</u> | <u>\$0</u> | <u>\$13,008</u> |

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

**SOMERS TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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 Somers 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 and cemetery maintenance.

The Township participates in Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. OTARMA provides property and casualty coverage for its members. Note 6 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

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

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

C. Cash and Deposits

The Township values certificates of deposit at cost.

D. Fund Accounting

The Township uses fund accounting to segregate cash and 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 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 to pay for constructing, maintaining, and repairing Township roads.

**SOMERS TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

Road Levy Fund – This fund receives property tax money to pay for constructing, maintaining, and repairing Township roads.

3. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Township had the following significant permanent funds:

Smucker Cemetery Bequest Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Township's cemetery.

Eikenberry Cemetery Bequest Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Township's cemetery.

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 carried over, and need not be reappropriated.

A summary of 2006 and 2005 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.

**SOMERS TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(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:

| | 2006 | 2005 |
|-------------------------|-----------|-----------|
| Demand deposits | \$408,054 | \$460,289 |
| Certificates of deposit | 1,877 | 1,877 |
| Total deposits | \$409,931 | \$462,166 |

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2005 and 2006 follows:

| 2006 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$62,474 | \$62,154 | (\$320) |
| Special Revenue | 305,421 | 297,306 | (8,115) |
| Permanent | 0 | 36 | 36 |
| Total | \$367,895 | \$359,496 | (\$8,399) |

| 2006 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$121,797 | \$88,199 | \$33,598 |
| Special Revenue | 644,211 | 418,660 | 225,551 |
| Permanent | 125 | 100 | 25 |
| Total | \$766,133 | \$506,959 | \$259,174 |

**SOMERS TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. Budgetary Activity (Continued)

| 2005 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$41,515 | \$38,105 | (\$3,410) |
| Special Revenue | 222,861 | 271,751 | 48,890 |
| Permanent | 0 | 35 | 35 |
| Total | \$264,376 | \$309,891 | \$45,515 |

| 2005 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$131,005 | \$49,868 | \$81,137 |
| Special Revenue | 500,200 | 207,197 | 293,003 |
| Permanent | 100 | 80 | 20 |
| Total | \$631,305 | \$257,145 | \$374,160 |

4. Property Tax

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

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

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

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

5. 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 2006, OPERS members contributed 9 percent of their gross salaries. The Township contributed an amount equaling 13.7 percent of participants' gross salaries. For 2005, OPERS members contributed 8.5 percent of their gross salaries. The Township contributed an amount equaling 13.55 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

**SOMERS TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. 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, including loss adjustment expenses. 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 OTARMA'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 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

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. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 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, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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.

**SOMERS TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. 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, 2006 and 2005:

| <u>Casualty Coverage</u> | <u>2006</u> | <u>2005</u> |
|--------------------------|---------------------|---------------------|
| Assets | \$32,031,312 | \$30,485,638 |
| Liabilities | <u>(11,443,952)</u> | <u>(12,344,576)</u> |
| Retained earnings | <u>\$20,587,360</u> | <u>\$18,141,062</u> |

| <u>Property Coverage</u> | <u>2006</u> | <u>2005</u> |
|--------------------------|--------------------|--------------------|
| Assets | \$10,010,963 | \$9,177,796 |
| Liabilities | <u>(676,709)</u> | <u>(1,406,031)</u> |
| Retained earnings | <u>\$9,334,254</u> | <u>\$7,771,765</u> |

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, 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 \$11,000. 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> | |
|---------------------------------------|---------|
| 2004 | \$5,570 |
| 2005 | \$5,634 |
| 2006 | \$5,485 |

**SOMERS TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. Risk Management (Continued)

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they give 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.

7. Related Party Transactions

The brothers of a Township Trustee own of a company from which the Township used services during the year. The company, George Brother's Garage, serviced the Township's vehicles during the audit period. The Township paid the garage \$3,599 during 2005 and \$1,147 during 2006.

A Township employee owns a business from which the Township used services during the year. The business, Lohrey Wall Service, repaired the walls at the Township cemetery during the audit period. The Township paid the company \$4,200 during 2005 and \$1,040 during 2006. This matter has been referred by the Auditor of State to the Ohio Ethics Commission.

8. Noncompliance

The Township held an executive session to discuss a matter not allowed by the Ohio Revised Code.

The Township did not issue Form 1099's to two vendors that they paid over \$600.

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Mary Taylor, CPA

Auditor of State

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

Somers Township
Preble County
392 West Hendricks Street
Camden, Ohio 45311

To the Township Board of Trustees:

We have audited the financial statements of Somers Township, Preble County, Ohio (the Township), as of and for the year ended December 31, 2006 and 2005, and have issued our report thereon dated July 26, 2007 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 because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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: 2006-001 through 2006-003.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated July 26, 2007.

Compliance and Other Matters0

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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-003.

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 July 26, 2007.

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

July 26, 2007

**SOMERS TOWNSHIP
PREBLE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

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

FINDING NUMBER 2006-001

Significant Deficiency / Material Noncompliance

Ohio Revised Code Section 121.22 requires all meetings of any public body to be open to the public at all times. The members of a public body may hold an executive session only after a majority of a quorum of the public body determines, by a roll call vote, to hold such a session and only at a regular or special meeting for the sole purpose of the consideration of any of the following matters:

- (1) The appointment, employment, dismissal, discipline, promotion, demotion, or compensation of a public employee or officials, or the investigation of charges or complaints against a public employee, official, licensee, or regulated individual, unless the public employee, official licensee, or regulated individual requests a public hearing;
- (2) The purchase of property for public purposes, or for the sale of property at competitive bidding, if premature disclosure of information would give an unfair competitive or bargaining advantage to a person whose personal private interest is adverse to the general public interest.
- (3) Conducting conferences with an attorney for the public body, concerning disputes involving the public body that are the subject of pending or imminent court action.
- (4) Preparing for, conducting, or reviewing negotiations or bargaining sessions with public employees concerning their compensation or other terms and conditions of their employment.
- (5) Matters required to be kept confidential by federal laws or rules or state statutes.
- (6) Specialized details of security arrangements and emergency response protocols where disclosure of the matters discussed could reasonably be expected to jeopardize the security of the public body or public office.

The Township held an executive session to discuss the repair of the cemetery wall; however, this matter does not meet any of the criteria for which an executive session may be called. Failure to make decisions relating to major expenditures in open meeting may result in questionable expenditures. We recommend the Township only hold executive sessions to discuss the topics outlined above.

Officials' Response: The Township did not respond to this finding.

FINDING NUMBER 2006-002

Significant Deficiency / Material Noncompliance

Ohio Revised Code, Section 2921.42(A)(4), prohibits any public official from knowingly having an interest in the profits or benefits of a public contract entered into by or for the use of the political subdivision or governmental agency or instrumentality with which he is connected. Furthermore, Ohio Revised Code Section 511.13 prohibits any member of the Board of Township Trustees or any officer or employee from being interested in any contract entered into by such board.

**FINDING NUMBER 2006-002
(Continued)**

On August 8, 2005, the Township entered into executive session to discuss the repair of the cemetery wall. On November 25, 2005, the Township paid Lohrey Wall Service \$4,200 for the repair of the stone wall at the cemetery. On April 18, 2006, the Township paid Lohrey Wall Service \$1,040 for the repair of the cemetery wall. No additional quotes were obtained for this project. Lohrey Wall Service is owned by Duwayne Lohrey, a general laborer of the Township. Lohrey Wall Service was not listed as a company in the Preble County phonebook nor was it registered with the Ohio Secretary of State as a business.

As an employee of the Township, Mr. Lohrey earns a wage of \$10.25 per hour. The expenditures submitted by Lohrey Wall Service included payment for services at \$20.00 per hour. Prior to the dates worked on the repair of the cemetery wall, Mr. Lohrey worked 1,131.5 hours for the Township for approximately 35 weeks for an average of 32 hours per week. During the repair of the cemetery wall, Mr. Lohrey worked 33.5 hours for the Township for six weeks for an average of 5.6 hours per week. During the period of November 2-4, 2005, Lohrey Wall Service indicated that a two man crew worked 24 hours each for an average of 8 hour per day. Mr. Lohrey was also compensated for working 8 hours for the Township on November 4, 2005.

Failure to use due care in the monitoring of Township expenditures can result in potential misdemeanor ethics violations by employees or officials that have an interest in the profits or benefits of the expenditure. Failure to contract with legitimate businesses could result in the Township receiving substandard work and having no recourse when such work is performed.

The Township should discuss the awarding of contracts and services in open meetings. The Township should ensure that all contracts and services conducted on behalf of the Township are performed by legitimate businesses and require such businesses to provide proof of insurance and bonding. The Township should also ensure that all officials and employees of the Township do not knowingly have an interest in the contracts or expenditures of the Township. The Township should review all bills and timecards to prevent possible overpayments or double compensation.

This matter will be referred to the Ohio Ethics Commission.

Officials' Response: The Township did not respond to this finding.

FINDING NUMBER 2006-003

Significant Deficiency / Material Noncompliance

26 C.F.R., Section 1.6041-1, provides that income aggregating \$600 or more should be reported on Form 1099.

The Township paid Lohrey Wall Service \$4,200 for 2005 and \$1,040 for 2006 for cemetery wall repair. The Township paid Michael Surveying \$3,900 for 2005 for cemetery surveying. They did not issue a Form 1099 to these vendors. Failure to report all taxable income could result in penalties to the Township. We recommend the Township complete a Form 1099 for all independent contractors receiving income aggregating \$600 or more.

Officials' Response: The Township did not respond to this finding.



Mary Taylor, CPA
Auditor of State

SOMERS 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
AUGUST 21, 2007**