



**Auditor of State  
Betty Montgomery**



**LAKE TOWNSHIP  
ASHLAND COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental and Fiduciary Fund Types For the Year Ended December 31, 2003.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental and Fiduciary Fund Types For the Year Ended December 31, 2002.....	4
Notes to the Financial Statements.....	5
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	11
Schedule of Findings.....	13

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Lake Township  
Ashland County  
2499 CR 175  
Loudonville, Ohio 44842

To the Board of Trustees:

We have audited the accompanying financial statements of Lake Township, Ashland County, Ohio, (the Township) as of and for the years ended December 31, 2003 and 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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 the Township as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The accompanying financial statements have been prepared assuming that the Township will continue as a going concern. As discussed in Note 9 to the financial statements, the Township has negative cash fund balances in the General Fund and the Gasoline Tax Fund of \$219 and \$24,877, respectively at December 31, 2003, and it is uncertain as to how the Township will eliminate the negative fund balances and provide for general operating needs. This condition raises substantial doubt about the Township's ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board of Trustees and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

September 10, 2004

**LAKE TOWNSHIP  
ASHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>		<u>Fiduciary Funds</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Non-Expendable Trust</u>	
<b>Cash Receipts:</b>				
Local Taxes	\$9,371	\$42,669		\$52,040
Intergovernmental	28,221	67,470		95,691
Licenses, Permits, and Fees	150			150
Earnings on Investments	76	5	\$3	84
	<u>37,818</u>	<u>110,144</u>	<u>3</u>	<u>147,965</u>
<b>Total Cash Receipts</b>				
	<u>37,818</u>	<u>110,144</u>	<u>3</u>	<u>147,965</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	44,655			44,655
Public Safety		6,612		6,612
Public Works		91,392		91,392
Health	4,470			4,470
Debt Service:				
Redemption of Principal		7,327		7,327
Interest and Fiscal Charges		948		948
Capital Outlay		887		887
	<u>49,125</u>	<u>107,166</u>	<u>0</u>	<u>156,291</u>
<b>Total Cash Disbursements</b>				
	<u>49,125</u>	<u>107,166</u>	<u>0</u>	<u>156,291</u>
Total Receipts Over/(Under) Disbursements	<u>(11,307)</u>	<u>2,978</u>	<u>3</u>	<u>(8,326)</u>
Fund Cash Balances, January 1	<u>11,088</u>	<u>20,921</u>	<u>748</u>	<u>32,757</u>
<b>Fund Cash Balances (Deficit), December 31</b>	<u><b>(\$219)</b></u>	<u><b>\$23,899</b></u>	<u><b>\$751</b></u>	<u><b>\$24,431</b></u>
Reserve for Encumbrances, December 31	<u>\$4,623</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,623</u>

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

**LAKE TOWNSHIP  
ASHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		<u>Fiduciary Funds</u>	<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Non-Expendable Trust</u>	
<b>Cash Receipts:</b>				
Local Taxes	\$9,109	\$32,967		\$42,076
Intergovernmental	42,098	79,323		121,421
Licenses, Permits, and Fees	705			705
Earnings on Investments	95	17	\$3	115
Other Revenue	94	377		471
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	52,101	112,684	3	164,788
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Cash Disbursements:</b>				
Current:				
General Government	36,905			36,905
Public Safety		6,046		6,046
Public Works		82,792		82,792
Health	3,966			3,966
Debt Service:				
Redemption of Principal		11,520		11,520
Interest and Fiscal Charges	142	2,611		2,753
Capital Outlay		2,920		2,920
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	41,013	105,889	0	146,902
	<hr/>	<hr/>	<hr/>	<hr/>
Total Receipts Over Disbursements	11,088	6,795	3	17,886
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1 (restated)	0	14,126	745	14,871
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balances, December 31</b>	<b><u>\$11,088</u></b>	<b><u>\$20,921</u></b>	<b><u>\$748</u></b>	<b><u>\$32,757</u></b>
	<hr/>	<hr/>	<hr/>	<hr/>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$6,190</u>	<u>\$0</u>	<u>\$6,190</u>

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



**LAKE TOWNSHIP  
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

Lake Township, Ashland County, (the Township) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the West Holmes Fire District, Village of Loudonville and the Village of Jeromesville to provide fire services and emergency medical services.

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

**B. Basis of Accounting**

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

**C. Cash**

Certificates of deposit are valued at cost. The Township has no investments.

**D. 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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Funds**

These funds are used to account for proceeds from specific sources (other than from 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 to pay for constructing, maintaining and repairing Township roads.

**LAKE TOWNSHIP  
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**3. Fiduciary Funds (Trust Funds)**

These funds are used to account for resources restricted by legally binding trust agreements and funds for which the Township is acting in an agency capacity. The Township had the following fiduciary fund:

*County Line Cemetery Trust* - Earnings on trust corpus are used to maintain cemetery grounds. The earnings are from a certificate of deposit jointly held with Green 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 fund, function or object level of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. 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. The Township did not encumber all commitments required by Ohio law. The budgetary presentations have been adjusted to include material items that should have been encumbered.

A summary of 2003 and 2002 budgetary activity appears in Note 4.

**F. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**LAKE TOWNSHIP  
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**2. RESTATEMENT OF PRIOR YEAR FUND BALANCES**

An adjustment was made to record expenditures from 2001 that were incorrectly recorded in the General Fund and the Special Revenue Funds as 2002 transactions. This caused the beginning fund balances in the General Fund and the Special Revenue Funds to decrease.

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Beginning Fund Balance, as previously reported	\$786	\$15,744
Adjustments	<u>(786)</u>	<u>(1,618)</u>
Beginning Fund Balance, Restated	<u><u>\$0</u></u>	<u><u>\$14,126</u></u>

**3. EQUITY IN POOLED CASH**

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

	<u>2003</u>	<u>2002</u>
Demand deposits	\$24,181	\$32,507
Certificates of deposit	250	250
Total deposits	<u><u>\$24,431</u></u>	<u><u>\$32,757</u></u>

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

**4. BUDGETARY ACTIVITY**

Budgetary activity for the years ended December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$41,160	\$37,818	(\$3,342)
Special Revenue	116,342	110,144	(6,198)
Fiduciary	24	3	(21)
Total	<u><u>\$157,526</u></u>	<u><u>\$147,965</u></u>	<u><u>(\$9,561)</u></u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$42,289	\$53,748	(\$11,459)
Special Revenue	138,208	107,166	31,042
Fiduciary	772	0	772
Total	<u><u>\$181,269</u></u>	<u><u>\$160,914</u></u>	<u><u>\$20,355</u></u>

**LAKE TOWNSHIP  
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**4. BUDGETARY ACTIVITY (Continued)**

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$39,728	\$52,101	\$12,373
Special Revenue	98,961	112,684	13,723
Fiduciary	14	3	(11)
Total	<u>\$138,703</u>	<u>\$164,788</u>	<u>\$26,085</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$39,728	\$41,013	(\$1,285)
Special Revenue	113,087	112,079	1,008
Fiduciary	758	0	758
Total	<u>\$153,573</u>	<u>\$153,092</u>	<u>\$481</u>

Contrary to Ohio Rev. Code 5705.10, at December 31, 2003, the General Fund had a cash deficit balance of \$219 and the Gasoline Tax Fund had a cash deficit balance of \$24,877. In addition, at December 31, 2002, the Gasoline Tax Fund had a cash deficit balance of \$7,535.

Contrary to Ohio Rev. Code 5705.36, the Clerk-Treasurer failed to obtain an increased amended certificate upon determination that an additional amount of revenue will be collected in any fund.

Contrary to Ohio Rev. Code 5705.41 (B), budgetary expenditures exceeded appropriation authority in the General Fund by \$6,836, in the Gasoline Tax Fund by \$14,346 and in the Motor Vehicle and License Fund by \$1,996 for the year ended December 31, 2003. At December 31, 2002, budgetary expenditures exceeded appropriation authority in the General Fund by \$1,285, in the Gasoline Tax Fund by \$3,132 and in the Road and Bridge Fund by \$12,123. Additionally the Township had expenditures plus encumbrances exceeding appropriations at the object level (legal level of control) in the General Fund, Motor Vehicle License Fund, Gasoline Tax Fund and Fire Fund in 2003 and 2002.

Contrary to Ohio Rev. Code 5705.41 (D), the Township made expenditures prior to certification by the Township Clerk-Treasurer.

Contrary to Ohio Rev. Code 507.04, the Clerk-Treasurer did not maintain the books of the Township in the correct format.

**5. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, 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.

**LAKE TOWNSHIP  
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**5. PROPERTY TAX (Continued)**

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

**6. DEBT**

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest Rate
General Obligation Note	\$2,160	6.50%
Capital Lease	5,648	6.50%
Total	\$7,808	

The general obligation note was issued to finance the purchase of a dump truck to be used for Township road maintenance. The note is collateralized solely by the Township's taxing authority. The capital lease was entered into to finance the purchase of a backhoe tractor to be used for Township road maintenance. The lease is collateralized solely by the Township's taxing authority.

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

	General Obligation Note	Capital Lease
Year ending December 31: 2004	\$2,196	\$5,896

**7. RETIREMENT SYSTEM**

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, OPERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 2003.

**8. RISK MANAGEMENT**

**Commercial Insurance**

The Township has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

**LAKE TOWNSHIP  
ASHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**9. NEGATIVE CASH FUND BALANCES – GOING CONCERN**

As of December 31, 2003, the General Fund and the Gasoline Tax Fund had negative cash fund balances of \$219 and \$24,877, respectively. It is uncertain how the Township will both eliminate the negative cash fund balances and continue to provide for general operating needs of the Township. Furthermore, the estimated revenues are not expected to be sufficient to offset budgeted expenditures and minimize the negative cash fund balance in the Gasoline Tax Fund during 2004.

Management has developed a plan to scrutinize the annual budget and to monitor General Fund and Gasoline Tax Fund expenses on a more regular basis.



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Lake Township  
Ashland County  
2499 CR 175  
Loudonville, Ohio 44842

To the Board of Trustees:

We have audited the accompanying financial statements of Lake Township, Ashland County, Ohio, (the Township) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated September 10, 2004 which identifies a condition which raises substantial doubt about the Township's ability to continue as a going concern. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-012.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated September 10, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Townships ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-013 through 2003-016.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider items 2003-013 and 2003-014 listed above to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the Township's management in a separate letter dated September 10, 2004.

This report is intended solely for the information and use of management, and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

September 10, 2004



**LAKE TOWNSHIP  
ASHLAND COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 and 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Finding for Recovery**

**FINDING NUMBER 2003-001**

**Ohio Rev. Code Section 505.601**, provides that a township that does not procure health care benefits for its officers and employees is permitted to reimburse any township officer or employee for each out-of-pocket premium that the officer or employee incurs. However, the following three conditions must be met:

1. The board of township trustees adopts a resolution stating that the township has chosen not to procure a health care plan and has chosen instead to reimburse its officers and employees for each out-of-pocket premium
2. The resolution provides for a uniform maximum monthly or yearly payment amount for each officer and employee, beyond which the township will not reimburse the officer or employee
3. The resolution states the specific benefits, pursuant to Ohio Rev. Code Section 505.60(A), that will be reimbursed.

For the period January 1, 2002 through December 31, 2003 Kimberly Reidenbach, the former Clerk-Treasurer, was reimbursed \$4,800 for health insurance premiums; however, she only provided supporting documentation for \$228 of out-of-pocket premiums.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Kimberly Reidenbach, former Lake Township Clerk and the Ohio Township Association Risk Management Authority (OTARMA), her bonding company, jointly and severally, in the amount of four thousand five hundred and seventy-two dollars (\$4,572) and in favor of the Lake Township General Fund.

**Finding for Recovery Repaid Under Audit**

**FINDING NUMBER 2003-002**

**Ohio Rev. Code Section 9.39** states, in-part, "all public officials are liable for all public money received or collected by them or by their subordinates under color of office." Lake Township zoning fees received by the Township Clerk totaled \$100 more than deposits made to the Lake Township bank account. A November 15, 2002 zoning permit fee of \$100 was not deposited as of December 31, 2003.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued jointly and severally against Kimberly Reidenbach, former Lake Township Clerk, and the Ohio Township Association Risk Management Authority (OTARMA), her bonding company, in the amount of one hundred dollars (\$100) and in favor of the Lake Township General Fund.

Kimberly Reidenbach repaid the \$100 on April 1, 2004.

**Material Noncompliance**

**FINDING NUMBER 2003-003**

**Ohio Rev. Code Section 118.021** provides that a township may undergo a fiscal watch review to determine whether it is approaching a state of fiscal emergency. The review will be initiated by a written request to the Auditor of State from the board of township trustees.

Pursuant to Ohio Rev. Code Section 118.022, the following is one of the conditions that are grounds for a **fiscal watch**:

The aggregate of deficit amounts of all deficit funds at the end of the preceding fiscal year, less the total of any year-end balance in the general fund and in any special fund that may be transferred as provided in Ohio Rev. Code § 5705.14 to meet that deficit, exceeded one-twelfth of the total of the general fund budget for that year and the receipts to those deficit funds during that year other than transfers from the general fund.

As of December 31, 2003, after audit adjustments, the Township's General Fund had a deficit of \$219 and the Gasoline Tax fund had a deficit of \$24,877. The remaining special revenue funds and the trust fund are restricted as to use and would require a court order to transfer funds. (See Ohio Rev. Code Sections 5705.15 and 5705.16). The total deficit of \$25,096 is greater than one-twelfth of the total of the general fund budget for 2003 which was \$42,289.

The Township should undergo a fiscal watch review to determine whether it is approaching a state of fiscal emergency.

**Material Noncompliance**

**FINDING NUMBER 2003-004**

**Ohio Rev. Code Section 5705.10** requires that monies paid into any fund be used only for the purposes for which such fund is established. As a result, negative cash fund balances are an indication that revenues from one fund were used to pay obligations of another fund.

The Township had negative cash fund balances in the following funds at December 31:

<b>2003</b>	
General	\$219
Gasoline Tax	\$24,877
<b>2002</b>	
Gasoline Tax	\$7,535

The Clerk-Treasurer should monitor fund activity to prevent future expenditures in excess of available resources. In addition, money should not be used from one fund to pay obligations of another fund.

**FINDING NUMBER 2003-005**

**Ohio Rev. Code Section 145.51** requires that each employer described in division (D) of section 145.01 of the Revised Code shall pay into the employers' accumulation fund, in such monthly or less frequent installments as the public employees retirement board requires, an amount certified by the board which equals the employer obligation as described in section 145.12 of the Revised Code. In addition, the board shall add to the employer billing next succeeding the amount, with interest, to be paid by the employer to provide the member with contributing service credit for the service prior to the date of initial contribution to the system for which the member has made additional payments, except payments made pursuant to sections 145.28 and 145.29 of the Revised Code. Ninety days after the end of a quarterly period, any amounts that remain unpaid are subject to a penalty for late payment in the amount of five per cent. In addition, interest on past due amounts and penalties may be charged at a rate set by the retirement board.

The Township was paying required contributions up to one year past the due date. On November 10, 2003 the Ashland County Auditor received a letter from the Ohio Public Employees Retirement System indicating that Lake Township had unpaid employer liability charges, penalties, and interest charges billed March 10, 2003 to current and requested that he withhold \$5,794 from funds that are due Lake Township and forward those funds to Ohio Public Employees Retirement System to satisfy past due obligations. As a result, the Township incurred late fees and interest of \$735 payable to the Ohio Public Employees Retirement System. The Township has paid all required amounts as of the date of this report.

All employee withholdings and employer contributions should be remitted promptly in the future to avoid late fees, penalties and interest.

**Material Noncompliance**

**FINDING NUMBER 2003-006**

**26 U.S.C. Section 3403**, states the employer shall be liable for the payment of the tax required to be deducted and withheld under this chapter, and shall not be liable to any person for the amount of any such payment.

The Township paid late fees and interest of \$1,864 in 2003 and \$230 in 2002 to the Internal Revenue Service as a result of late payments of withholdings and employer contributions up to one year past due.

Employee withholdings and employer contributions should be remitted promptly in the future to avoid penalties, late fees and interest.

**Material Noncompliance**

**FINDING NUMBER 2003-007**

**Ohio Rev. Code Section 507.04** requires that the Township Clerk-Treasurer shall keep an accurate record of the proceedings of the board of township trustees at all its meetings, and of all its accounts and transactions including the acceptance of the bonds of township officers.

**Ohio Admin. Code Section 117-2-02(A)** provides that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, 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. Per Ohio Admin. Code Section 117-2-02(D), accounting records should include:

- Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.

**Material Noncompliance (Continued)**

**FINDING NUMBER 2003-007 (Continued)**

- Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund.
- Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution.

**Ohio Admin. Code Section 117-7-01** provides that Townships must maintain financial records on a fund basis. This code provides suggested account classifications. Township receipts may be classified by fund and source (taxes or charges for services, for example) and disbursements may be classified by fund and program (security of persons and property, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will 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.

In 2003 and 2002, the Township's Clerk-Treasurer did not properly maintain a receipt ledger, appropriation ledger or cash journal. The Township did not correctly classify receipt and disbursement transactions and the entries in these records were not in sequential numeric order. Additionally, there were occurrences of township receipts not being deposited for up to 13 months and checks not clearing the bank until 6 months after being issued. Although the Township maintained a receipt and appropriation ledger and a cash journal, numerous inaccuracies were noted resulting in restatements of fund balances and expenditures in excess of the fund balances in the general and gasoline tax funds.

Furthermore, the Township's list of outstanding checks was not accurately maintained and contained large numbers of voided checks that had been replaced. Additionally, the outstanding check list was not prepared in a proper manner. The outstanding check list should include a listing with the date, check number and amount of each individual check that is outstanding. A complete outstanding check list should be prepared for the monthly bank reconciliation.

The Township should maintain an accounting system and accounting records as required by the Ohio Administrative Code. This would include a receipt ledger, appropriation ledger or cash journal. In addition, as chief fiscal officer, the Township Clerk-Treasurer is responsible for all financial activity of the Township, and we recommend the Township Trustees review and approve the monthly reports and bank reconciliations.

**FINDING NUMBER 2003-008**

**Ohio Rev. Code Section 5705.41(D)** requires that no subdivision or taxing unit make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

**FINDING NUMBER 2003-008 (Continued)**

This section also provides for two "exceptions" to the above requirements:

- a) Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Trustees may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- b) If the amount involved is less than \$1,000 (or \$3,000 effective April 7, 2003), the Clerk-Treasurer may authorize payment through a Then and Now Certificate without affirmation of the Board of Trustees, if such expenditure is otherwise valid.

During the audit period, 67% of the expenditures tested were not certified by the Township Clerk-Treasurer prior to incurring the obligation. It was also found that neither of the two exceptions above were utilized for the items found to be in non-compliance. The Township should certify the availability of funds prior to incurring the obligation for expenditures. The Township should also implement the use of Then and Now certificates as further permitted by this section.

**Finding for Adjustment**

**FINDING NUMBER 2003-009**

**Ohio Rev. Code Section 505.24** states the Township Trustees shall be paid from the township general fund or from such other township funds in such proportions as the board may specify by resolution. This means the salary resolution must allocate the salary distribution from various funds in the same proportion as the trustees' services bear to the activities supported by such funds, as determined by the board.

During our audit, we noted that the Township Trustees were paid a combined total of \$19,245 in 2003 and \$19,245 in 2002. For 2003, 100% of the Township Trustees' salaries were paid from the Gas Tax Fund. For 2002, eleven-twelfths of the Township Trustees' salaries were paid from the Gas Tax Fund. There was no resolution in effect which indicated that Trustees' salaries should be paid from any fund other than the General Fund, and no evidence was provided to indicate what portion of the Trustees' time was devoted to activities supported by the Gas Tax Fund. However, on March 15, 2004, the Board of Trustees passed a resolution retroactive to January 1, 2002, which allowed eleven-twelfths of the Township Trustees' salaries to be paid from the Gas Tax Fund, based on the estimated level of service provided by the Trustees during the audit period. Based on this percentage, a combined total of \$1,604 in 2003 should have been paid from the General Fund.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 505.24, a Finding for Adjustment for public monies illegally expended is hereby issued against the General Fund and in favor of the Gas Tax Fund, in the amount of \$1,604 as of December 31, 2003.

Although this adjustment is reflected in the accompanying financial statements, the Township has not recorded it in their books and records until after the audit period.

**Material Noncompliance**

**FINDING NUMBER 2003-010**

**Ohio Rev. Code Section 5705.41(B)** requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

Township expenditures plus outstanding encumbrances exceeded appropriations at the object level within the following funds at December 31:

	<b>2003</b>		
<u>Fund – Object</u>	<u>Appropriations</u>	<u>Actual Expenditures</u>	<u>Variance</u>
General – Travel	\$1000	\$1,387	\$387
General – Supplies	100	232	132
General – OPERS	8,500	12,112	3,612
General - Advertising Delinquent Lands	10	17	7
General - Election Expenses	100	126	26
General – Other	906	7,254	6,348
General - Cemetery Salaries	3,000	4,050	1,050
Motor Vehicle – Supplies	2,900	5,542	2,642
Motor Vehicle – Repairs	2,500	4,269	1,769
Gasoline - Salaries-Trustees	16,000	19,245	3,245
Gasoline - Tools & Equipment	1,000	9,162	8,162
Gasoline – Supplies	3,500	7,385	3,885
Gasoline – Other	10	571	561
Gasoline – Salaries	25,000	25,981	981
Fire - Other Expenses	100	145	45

	<b>2002</b>		
<u>Fund – Object</u>	<u>Appropriations</u>	<u>Actual Expenditures</u>	<u>Variance</u>
General – Travel	\$1,000	\$1,359	\$359
General – Supplies	100	394	294
General – Insurance	8,000	10,778	2,778
General - Workers Comp	500	1,137	637
General - Auditor/Treasurer Fees	250	2,651	2,401
General - Advertising Delinquent Lands	10	29	19
General - Election Expenses	100	560	460
General – Utilities	1,750	2,737	987
General - Cemetery Salaries	2,000	3,540	1,540
Motor Vehicle – Supplies	5,000	5,935	935
Gasoline - Salaries-Trustees	16,245	17,641	1,396
Gasoline - Tools & Equipment	1,000	17,169	16,169
Gasoline – Supplies	3,500	5,631	2,131
Fire - Other Expenses	50	261	211

The Clerk-Treasurer should frequently compare actual expenditures plus outstanding encumbrances to appropriations at the object level to avoid overspending. In addition, the Clerk-Treasurer should periodically review the Township's Appropriations Reports to ensure appropriation amounts are posted accurately and timely.

**Material Noncompliance**

**FINDING NUMBER 2003-011**

**Ohio Rev. Code Section 5705.36** allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue.

As a result of the Township not obtaining an Amended Certificate of Estimated Resources and requesting a supplemental appropriation for the General Fund and Road and Equipment Levy Fund in 2002, the Township over-expended funds in excess of estimated resources in those funds.

The Clerk-Treasurer should obtain an Official Amended Certificate of Estimated Resources from the Budget Commission upon determining that an additional source of revenue will be collected. If the Township intends to expend these monies, the Board of Trustees should approve a supplemental appropriation measure which should also be filed with the County Auditor.

**FINDING NUMBER 2003-012**

All interest earned must be credited to the general fund of the subdivision, with certain limited exceptions. One exception is provided for by **Ohio Constitution, Article XII, Section 5a**, which requires that interest earned on money derived from a motor vehicle license or fuel tax must follow the principal.

The Clerk-Treasurer made investments of pooled cash from all funds, and distributed interest to all funds. The Township should adjust for the following amounts:

<u>Funds Entitled to Interest</u>	<u>2003</u>	<u>2002</u>	<u>Total</u>
General Fund	\$73	\$80	\$153
Gasoline Tax Fund	2	0	2
Motor Vehicle License Tax Fund	0	0	0
Road and Bridge Fund	(40)	(33)	(73)
Fire Fund	(35)	(47)	(82)
Cemetery Fund	<u>0</u>	<u>0</u>	<u>0</u>
Total:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

As a result, revenues were overstated in the Road and Bridge Fund and Fire Fund, and understated in the General Fund and Gasoline Tax Fund. The Road and Bridge Fund and Fire Fund should not have received any interest. The Township should apportion interest earnings to the Gasoline Tax Fund and Motor Vehicle Tax Fund based on a reasonable determination of their share of the investment pool.

The Township made the necessary adjustments to correct these errors. These adjustments are reflected within the Township's accounting records and financial statements.

**Material Weakness**

**FINDING NUMBER 2003-013**

**Late Fees and Penalties**

The Clerk-Treasurer did not promptly remit payment for all of the Townships expenditures for operations during 2003 and 2002 with payments being made up to 142 days after the invoice date. These payments resulted in late fees, penalties and interest being assessed and paid by the Township. The amounts of these late fees, penalties and interest that were noted during testing are summarized below:

<u>Source</u>	<u>2003</u>	<u>2002</u>	<u>Total Tested</u>
Local Vendors	\$275	\$99	\$374
Farmers Bank – Debt	305	595	900
Ohio Department of Jobs and Family Services – Unemployment	7,578	0	7,578
Ohio Public Employees Retirement System	735	0	735
Internal Revenue Service	<u>1,864</u>	<u>230</u>	<u>2,094</u>
Total	<u>\$10,757</u>	<u>\$924</u>	<u>\$11,681</u>

The Clerk-Treasurer should promptly remit payments for all of the Townships expenditures. This should eliminate unnecessary expenditure of public funds for the payment of late fees, penalties and interest.

**Material Weakness**

**FINDING NUMBER 2003-014**

**Bank Reconciliations**

The following was noted regarding the Township’s bank reconciliations for 2003 and 2002:

- The Clerk-Treasurer reconciles bank balances to the Township’s cash book fund balances on a monthly basis. However, these reconciliations were not performed timely during the audit period and were not reviewed by anyone.
- The listing of outstanding checks was not maintained in an orderly manner by listing each check number and each individual amount.
- The outstanding checklist included checks that had been carried from prior year reconciliations for six to eight months on the current year reconciliations without being properly cleared. This resulted in an outstanding check list with 290 checks at December 31, 2003 of which 193 checks were subsequently found to have been voided and replaced. The December 31, 2002 outstanding check list had 96 checks listed and 77 checks were subsequently found to have been voided and replaced. The subsequent issuance of checks, to replace voided checks, were not properly recorded in the Township records nor was the voiding of outstanding checks.
- Checks that were properly approved by the Trustees were routinely held for up to six months before being mailed and in some cases the late payments resulted in penalties and interest charges being incurred by the Township. See Finding Number 2003-011.



**Material Weakness (Continued)**

**FINDING NUMBER 2003-014 (Continued)**

The following policies and procedures should be implemented immediately by the Township to address the aforementioned matters:

- The monthly bank reconciliations should be prepared timely and the bank reconciliation and outstanding check listing should be reviewed by someone other than the person performing the reconciliation, such as a Township Trustee and approved at the monthly Board Meeting.
- All outstanding items should be included on the bank reconciliation with each item detailed as to issue date, amount and check number.
- The outstanding checklist should reflect only those checks actually outstanding at month end. In addition, stale-dated checks should be moved to an unclaimed monies fund. Voided checks should be posted to the books and processed as adjustments to expenditures rather than being included as revenue.
- Checks should be mailed to vendors as soon as possible after being issued to avoid penalties and interest charges and to reduce the possibility of approved checks being lost or stolen.

**Reportable Condition**

**FINDING NUMBER 2003-015**

**Trustee Monitoring of Financial Reports**

The Clerk-Treasurer does not prepare monthly financial reports for Trustees to review and approve. The Trustees do not formally review or approve any financial information on a monthly basis. However, Township expenditures are approved by the Trustees.

The lack of monthly financial reports does not allow the Trustees to be up to date on the financial activity of the Township and restricts their monitoring abilities over the Clerk-Treasurer and the Township's finances. By not reviewing and approving the bank reconciliations or monthly reports demonstrates a lack of fiscal monitoring by Township Trustees. Unrecognized errors resulting in misstatements of the Township's records could occur and not be detected timely as a result of the lack of monitoring of the monthly financial reports and bank reconciliations.

The Trustees should request monthly financial reports and formally recognize in the minutes the acceptance of those monthly reports received from the Clerk-Treasurer. Reports should include, but not be limited to, the monthly cash reconciliation, budget to actual statements, receipt/expenditure/fund balance reports, etc. These reports should reflect all activity of the Township. These reports will improve the Trustee's awareness of all finance related activity and facilitate their decision making process.

**Reportable Condition**

**FINDING NUMBER 2003-016**

**Non-payroll Disbursements**

During the testing of non-payroll disbursements within the Township, we noted the following:

- The Township does not use the proper coding and accounting for disbursements as prescribed in the Ohio Township Handbook.
- Disbursements were posted to the correct fund; however, the account utilized did not always appear reasonable.
- The fund and amount listed on the duplicate check was not always in agreement with the fund posting in the appropriations ledger.
- Supporting documentation was not always attached.
- Cash journal postings did not always correspond to the postings in the appropriation ledger.
- Certifications were not attached to the voucher, nor were there references on the voucher to a purchase order.
- Disbursements were not posted in sequential check number.

The Clerk-Treasurer should consult the "Ohio Township Handbook" prepared by the Auditor of State to determine the proper coding and accounting of Township disbursements. Further, the Township should establish additional accounts to properly reflect their disbursements. In addition, the Clerk-Treasurer should use the same data, such as fund numbers and dates, throughout all the Township's financial records.



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**LAKE TOWNSHIP**

**ASHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 14, 2004**