

Lee Township

Athens County, Ohio

Regular Audit

For the Years Ended December 31, 2004 and 2003

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

Telephone (740) 289-4131

Fax (740) 289-3639

www.bhscpas.com



**Auditor of State
Betty Montgomery**

Board of Trustees
Lee Township
Albany, Ohio 45710

We have reviewed the *Independent Auditor's Report* of Lee Township, Athens County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2003 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. Lee Township is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 22, 2006

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**LEE TOWNSHIP
ATHENS COUNTY**

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Board of Trustees
Lee Township
Athens County, Ohio
1670 Morton Avenue
Albany, OH 45710

We have audited the accompanying financial statements of Lee Township, Athens County, (the Township) as of and for the years ended December 31, 2004 and 2003. 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 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. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the government 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. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the funds accompanying financial statements presented for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e., major) funds separately for 2004. While the Township does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require, governments to reformat their statements. The Township has elected not to reformat its statements. Since the Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts are materially misstated under 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 paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township's combined funds as of December 31, 2004, or their 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 of Lee Township, Athens County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2006, 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 testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. 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.



Balestra, Harr & Scherer, CPAs, Inc.

May 8, 2006

**LEE TOWNSHIP
ATHENS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Local Taxes	\$44,256	\$82,619	\$8,424	\$135,299
Intergovernmental	24,801	90,212	0	115,013
Earnings on Investments	619	175	0	794
Other Revenue	2,014	604	0	2,618
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	71,690	173,610	8,424	253,724
Cash Disbursements:				
Current:				
General Government	83,937	0	0	83,937
Public Safety	0	19,955	0	19,955
Public Works	0	165,761	0	165,761
Health	14,109	0	0	14,109
Debt Service:				
Redemption of Principal	0	0	8,123	8,123
Interest and Fiscal Charges	0	0	301	301
Capital Outlay	0	84,583	0	84,583
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	98,046	270,299	8,424	376,769
Total Cash Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(26,356)	(96,689)	0	(123,045)
Other Financing Receipts:				
Proceeds from Sale of Public Debt:				
Other Proceeds from Sale of Public Debt	0	52,912	0	52,912
Transfers-In	729	39,775	0	40,504
Advances-In	0	3,734	0	3,734
Transfers-Out	0	(40,504)	0	(40,504)
Advances-Out	(3,734)	0	0	(3,734)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts	(3,005)	55,917	0	52,912
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements				
Receipts Over/(Under) Cash Disbursements	(29,361)	(40,772)	0	(70,133)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>	<hr/>
	70,380	158,711	0	229,091
Fund Cash Balances, December 31	<hr/>	<hr/>	<hr/>	<hr/>
	\$41,019	\$117,939	\$0	\$158,958

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

**LEE TOWNSHIP
ATHENS COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Local Taxes	\$46,158	\$93,276	\$8,424	\$147,858
Intergovernmental	40,189	124,640	0	164,829
Earnings on Investments	876	309	0	1,185
Other Revenue	1,026	0	0	1,026
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	88,249	218,225	8,424	314,898
	<hr/>	<hr/>	<hr/>	<hr/>
Cash Disbursements:				
Current:				
General Government	75,664	0	0	75,664
Public Safety	0	36,370	0	36,370
Public Works	0	124,269	0	124,269
Health	3,026	0	0	3,026
Debt Service:				
Redemption of Principal	0	0	7,826	7,826
Interest and Fiscal Charges	0	0	598	598
Capital Outlay	0	43,973	0	43,973
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	78,690	204,612	8,424	291,726
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	9,559	13,613	0	23,172
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	60,821	145,098	0	205,919
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$70,380</u>	<u>\$158,711</u>	<u>\$0</u>	<u>\$229,091</u>

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

LEE TOWNSHIP ATHENS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Lee Township, Athens 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 general governmental services, including road and bridge maintenance, cemetery maintenance, and fire protection.

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. Fund Accounting

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

1. General Fund

The General Fund 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 that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

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

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

3. Debt Service Funds

The debt service fund is used to accumulate resources from the payment of bonds and note indebtedness. The Township had the following significant Debt Service Fund:

General Bond (Note) Retirement – This fund receives property tax money to pay off the note for the purchase of a tractor.

LEE TOWNSHIP ATHENS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

(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 fund 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.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

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.

G. Unpaid Vacation and Sick Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's basis of accounting.

2. 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:

	2004	2003
Demand Deposits	\$ 158,958	\$ 229,091

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

LEE TOWNSHIP ATHENS COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General Fund	\$ 121,547	\$ 72,419	\$ (49,128)
Special Revenue	357,080	266,297	(90,783)
Debt Service	8,424	8,424	-
Total	\$ 487,051	\$ 347,140	\$ (139,911)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General Fund	\$ 113,080	\$ 98,046	\$ (15,034)
Special Revenue	313,941	310,803	(3,138)
Debt Service	8,424	8,424	-
Total	\$ 435,445	\$ 417,273	\$ (18,172)

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General Fund	\$ 118,675	\$ 88,249	\$ 30,426
Special Revenue	304,081	218,225	85,856
Debt Service	8,424	8,424	-
Total	\$ 431,180	\$ 314,898	\$ 116,282

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General Fund	\$ 88,470	\$ 78,690	\$ (9,780)
Special Revenue	290,195	204,612	(85,583)
Debt Service	8,424	8,424	-
Total	\$ 387,089	\$ 291,726	\$ (95,363)

LEE TOWNSHIP ATHENS COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

4. 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 payment, 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. DEBT Debt outstanding at December 31, 2004 was as follows:

	Principal	Interest Rate
Promissory Note	\$ 52,912	4.75%

The Promissory Note was issued to finance the purchase of a Tractor. The note is collateralized by the Tractor. The original promissory note was for \$52,912 for 5 years with an annual payment of \$11,450.

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

Year Ending	Promissory Note
2005	\$ 11,450
2006	11,450
2007	11,450
2008	11,450
2009	11,450
Total	\$ 57,250

6. RETIREMENT SYSTEMS

The Township's elected officials and employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS 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 2004 and 2003, members of PERS 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 employer contributions required through December 31, 2004.

LEE TOWNSHIP ATHENS COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

NOTE 7 – RISK MANAGEMENT

Risk Pool Membership

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

OTARMA retains casualty risks up to \$250,000 per occurrence, including loss adjustments expense. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

OTARMA retains property risks including automobile physical damage up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund Pays losses and loss adjustment expenses exceeding operating contributions.

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 township.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and report the following assets, liabilities and retained earnings at December 31, 2004 and 2003: Most recent information available:

<u>Casualty Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$30,687,203	\$27,792,223
Liabilities	<u>(13,640,962)</u>	<u>(11,791,300)</u>
Retained earnings	<u>\$17,046,241</u>	<u>\$16,000,923</u>

<u>Property Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$7,799,073	\$6,791,060
Liabilities	<u>(753,906)</u>	<u>(750,956)</u>
Retained earnings	<u>\$7,045,167</u>	<u>\$6,040,104</u>

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Lee Township
Athens County, Ohio
1670 Morton Avenue
Albany, OH 45710

We have audited the accompanying financial statements of Lee Township, Athens County, Ohio (the Township), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated May 8, 2006, 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 conducted our audits 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Township's internal control over financial reporting in order to determine auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 audits and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain other matters which we have reported to management in a separate letter dated May 8th, 2006.

Lee Township
Athens County
Report on Internal Control Over Financial Reporting and on Compliance
And Other Matters Based on An Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards*

This report is intended solely for the information and use of the audit committee, 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 cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

May 8, 2006

**LEE TOWNSHIP
ATHENS COUNTY**

**SCHEDULE OF PRIOR AUDITINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-40705-003	In 1999, supplemental appropriations were not approved by the Board.	Yes	
2000-40705-006	Budgeted amounts adopted by the Board were not accurately reflected in the system; budget information was not filed with the County Auditor.	No	Partially Corrected; Condition not as significant, therefore, this condition has been reported to the management of the Township in a separate letter dated May 8, 2006.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

LEE TOWNSHIP

ATHENS 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
SEPTEMBER 5, 2006**