



Mary Taylor, CPA  
Auditor of State



LEMON TOWNSHIP  
BUTLER COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter .....	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005.....	6
Notes to the Financial Statements .....	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	13
Schedule of Findings .....	15
Schedule of Prior Audit Findings .....	19

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# Mary Taylor, CPA Auditor of State

Lemon Township  
Butler County  
3839 North Brook Lane  
Middletown, Ohio 45044

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

January 11, 2008

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Lemon Township  
Butler County  
3839 North Brook Lane  
Middletown, Ohio 45044

To the Board of Trustees:

We have audited the accompanying financial statements of Lemon Township, Butler 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.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242  
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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 of Lemon Township, Butler County, Ohio 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 January 11, 2008, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Mary Taylor, CPA**  
Auditor of State

January 11, 2008



**LEMON TOWNSHIP  
BUTLER 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**

	<b>General</b>	<b>Special Revenue</b>	<b>Totals (Memorandum Only)</b>
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$169,861	\$9,143	\$179,004
Licenss, Permits, and Fees	8,330		8,330
Fines and Forfeitures		815	815
Intergovernmental	87,353	91,763	179,116
Special Assessments		8,459	8,459
Earnings on Investments	2,410	5,497	7,907
Miscellaneous	1,959		1,959
	<u>269,913</u>	<u>115,677</u>	<u>385,590</u>
<b>Cash Disbursements:</b>			
Current:			
General Government	103,994	45,335	149,329
Public Safety	272,062	754	272,816
Public Works		101,905	101,905
Health		5,389	5,389
	<u>376,056</u>	<u>153,383</u>	<u>529,439</u>
Total Receipts (Under) Disbursements	<u>(106,143)</u>	<u>(37,706)</u>	<u>(143,849)</u>
Fund Cash Balances, January 1	<u>387,392</u>	<u>755,984</u>	<u>1,143,376</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$281,249</u></b>	<b><u>\$718,278</u></b>	<b><u>\$999,527</u></b>

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

**LEMON TOWNSHIP  
BUTLER 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**

	<b>General</b>	<b>Special Revenue</b>	<b>Totals (Memorandum Only)</b>
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$0	\$7,468	\$7,468
Licenses, Permits, and Fees	11,102		11,102
Fines and Forfeitures	5,841	483	6,324
Intergovernmental	75,023	82,570	157,593
Special Assessments		8,237	8,237
Earnings on Investments	4,197	7,606	11,803
Miscellaneous	584		584
	<u>96,747</u>	<u>106,364</u>	<u>203,111</u>
<b>Total Cash Receipts</b>			
<b>Cash Disbursements:</b>			
Current:			
General Government	143,849		143,849
Public Safety	188,499	3,499	191,998
Public Works		10,082	10,082
Health		1,075	1,075
	<u>332,348</u>	<u>14,656</u>	<u>347,004</u>
<b>Total Cash Disbursements</b>			
	<u>332,348</u>	<u>14,656</u>	<u>347,004</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>(235,601)</u>	<u>91,708</u>	<u>(143,893)</u>
<b>Other Financing Receipts / (Disbursements):</b>			
Transfers-In	140,000		140,000
Transfers-Out		(140,000)	(140,000)
	<u>140,000</u>	<u>(140,000)</u>	<u>0</u>
<b>Total Other Financing Receipts / (Disbursements)</b>			
	<u>140,000</u>	<u>(140,000)</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements	(95,601)	(48,292)	(143,893)
Fund Cash Balances, January 1	482,993	804,276	1,287,269
	<u>482,993</u>	<u>804,276</u>	<u>1,287,269</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$387,392</b></u>	<u><b>\$755,984</b></u>	<u><b>\$1,143,376</b></u>

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

**LEMON TOWNSHIP  
BUTLER 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 Lemon Township, Butler County, Ohio (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township contracts with the City of Monroe to provide road and bridge maintenance, cemetery maintenance, police protection, fire protection, and emergency medical services.

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

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

**LEMON TOWNSHIP  
BUTLER COUNTY**

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

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

**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. Appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law. The Township had unrecorded encumbrances of \$1,356 for fiscal year ending December 31, 2005 and \$2,248 for fiscal year ending December 31, 2006.

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.

**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:

	<u>2006</u>	<u>2005</u>
Demand deposits	\$749,093	\$643,376
Certificates of deposit	250,434	500,000
Total deposits	<u>\$999,527</u>	<u>\$1,143,376</u>

**LEMON TOWNSHIP  
BUTLER COUNTY**

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

**2. Equity in Pooled Cash And Deposits (Continued)**

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation and collateralized by the financial institution's public entity deposit pool. Although the securities serving as collateral were held by the pledging financial institution's trust department and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Township to a successful claim by the Federal Deposit Insurance Corporation.

**3. Budgetary Activity**

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

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$376,148	\$269,913	(\$106,235)
Special Revenue	92,469	115,677	23,208
Total	\$468,617	\$385,590	(\$83,027)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$705,590	\$376,056	\$329,534
Special Revenue	829,247	153,383	675,864
Total	\$1,534,837	\$529,439	\$1,005,398

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$102,614	\$236,747	\$134,133
Special Revenue	63,465	106,364	42,899
Total	\$166,079	\$343,111	\$177,032

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$595,148	\$332,348	\$262,800
Special Revenue	881,091	154,656	726,435
Total	\$1,476,239	\$487,004	\$989,235

Contrary to Ohio law, the Township did not encumber all commitments as required by law. Also contrary to Ohio law, the Township had appropriations exceeding estimated resources in fiscal year 2005.

**LEMON TOWNSHIP  
BUTLER COUNTY**

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

**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.

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 plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Township contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

**6. Risk Management**

**Risk Pool Membership**

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.

**LEMON TOWNSHIP  
BUTLER COUNTY**

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

**6. Risk Management (Continued)**

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.

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>

**LEMON TOWNSHIP  
BUTLER COUNTY**

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

**6. Risk Management (Continued)**

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$10,010,963	\$9,177,796
Liabilities	(676,709)	(1,406,031)
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 \$6,028. 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.

<b><u>Contributions to OTARMA</u></b>	
2004	\$ 2,864
2005	\$ 2,774
2006	\$ 3,014





# 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*

Lemon Township  
Butler County  
3839 Northbrook Lane  
Middletown, Ohio 45044

To the Township Board of Trustees:

We have audited the financial statements of Lemon Township, Butler County, Ohio (the Township), as of and for the year ended December 31, 2006 and 2005, and have issued our report thereon dated January 11, 2008 wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits 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 Lemon Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2006-003 is also a material weakness.

We also certain internal control matters that we reported to the Township's management in a separate letter dated January 11, 2008.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated January 11, 2008.

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



**Mary Taylor, CPA**  
Auditor of State

January 11, 2008

**LEMON TOWNSHIP  
BUTLER COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2006-001**

**Finding for Recovery-Repaid Under Audit**

The Township Trustees approved the following checks for buying club memberships, alcohol purchase, and phone service at fiscal officer's home:

<u>Check #</u>	<u>Amount</u>	<u>Vendor</u>	<u>Item</u>
29014	\$ 35.00	Rita Tannreuther	Sam's Club Membership (no indication membership was used for Township's benefit)
28529	\$ 60.05	Ameritech	Fiscal Officer's Personal Phone Bill
28596	\$ 30.00	Rita Tannreuther	Sam's Club Membership (no indication membership was used for Township's benefit)
28734	\$ 33.00	Mike Rossi	Alcohol Purchase
	<u>\$ 158.05</u>		

*State ex rel. McClure v. Hagerman* (1951), 155 Ohio St. 320 provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, 1982 Op. Att'y Gen. No. 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005, Expenditure of Public Funds/Proper "Public Purpose", states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Rita Tannreuther, Township Fiscal Officer, in the amount of \$125.05 and Michael Rossi, Township Trustee, in the amount of \$33.00 and in favor of Lemon Township's General Fund, in the total amount of \$158.05.

Rita Tannreuther repaid the Township \$90.05 on August 31, 2007 for the one Sam's Club Membership and the Ameritech bill. Rita Tannreuther repaid the Township \$35 on November 27, 2007 for the second Sam's Club Membership and Mike Rossi repaid the Township \$33 on November 27, 2007 for the alcohol purchase. All repayments were posted to the General Fund of the Township.

## FINDING NUMBER 2006-002

### Noncompliance

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

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

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

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

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Of 40 expenditures tested, 85% of items tested in 2005 and 85% of items tested in 2006 were not properly certified. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

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

We recommend the Township officials obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**FINDING NUMBER 2006-003**

**Noncompliance and Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that all transactions are properly classified and recorded on the books and in the annual report to ensure that accounting records are accurate as to the type of revenue that is received, the type of disbursement made, or the fund that disbursements or transfers are made from.

**Ohio Rev. Code, Section 5705.10(D)**, states except as otherwise provided by resolution adopted pursuant to section 3315.01 of the Revised Code, all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

The Township lacked management oversight in the proper recording of intergovernmental revenue of the Township. This lack of oversight is illustrated by the following:

- In fiscal year 2006, the homestead and rollback receipt, totaling \$6,094, received from the State of Ohio was posted as tax revenue in the General Fund as opposed to intergovernmental revenue.
- In fiscal year 2006, special assessments for street lights were posted as tax revenue in the General Fund instead of the Special Revenue fund (Fund 2401) for a total of \$8,459.
- In fiscal year 2005, special assessments for street lights were posted as tax revenue in the General Fund instead of the Special Revenue fund (Fund 2401) for a total of \$8,237.

Audit adjustments were made to the accompanying financial statements for the above items.

The lack of proper management oversight could result in material misstatement to the financial records and statements of the Township. To improve recordkeeping and accountability of intergovernmental revenues:

We recommend that the Township use due care in the posting of all transactions to the Township's ledgers.

**FINDING NUMBER 2006-004**

**Noncompliance**

**Ohio Rev. Code, Section 5705.39**, states that total appropriations from each fund should not exceed the total estimated revenue available for expenditure, as certified by the budget committee. Contrary to this section, the Township, during 2005, had appropriations exceeding estimated resources in the following funds:

<b>Fund</b>	<b>Appropriations</b>	<b>Estimated Revenue</b>	<b>Variance</b>
Motor Vehicle License Tax	\$25,738	\$20,936	(\$4,802)
Gasoline	586,119	554,907	(31,212)
Cemetery	12,016	11,916	(100)
Road	10,000	0	(10,000)
Permissive Tax	91,796	85,132	(6,664)

We recommend the Township prepare amendments to the Certificate of Estimated Resources or reduce the appropriation measure as necessary. The Certificate of Estimated Resources should be evaluated each time an appropriation amendment is made to determine there are adequate financial resources to cover anticipated expenditures.

**Officials' Response:**

We did not receive a response from Officials to the findings reported above.

**LEMON TOWNSHIP  
BUTLER COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	ORC Section 5705.41(D)(1) Failure to certify expenditures	No	Not Corrected - Repeat as Finding 2006-002
2004-002	ORC Section 9.38 Not timely depositing receipts	No	Partially Corrected – Reported in the Management Letter







**Mary Taylor, CPA**  
Auditor of State

**LEMON TOWNSHIP**

**BUTLER 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  
JANUARY 31, 2008**