



**Auditor of State
Betty Montgomery**

MASON TOWNSHIP
LAWRENCE COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Mason Township
Lawrence County
446 Township Road 209
Willow Wood, Ohio 45696

To the Board of Township Trustees:

We have audited the accompanying financial statements of Mason Township, Lawrence 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.

The Township's financial transactions were processed using 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 conduct the audit of 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 that our audit provides a reasonable basis for our opinion.

As described 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 of Mason Township, Lawrence County, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 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 the audit committee, management, the Board of Township 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

August 24, 2004

**MASON TOWNSHIP
LAWRENCE 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>	
Cash Receipts:			
Local Taxes	\$ 6,972	\$ 2,644	\$ 9,616
Intergovernmental	14,804	87,245	102,049
Earnings on Investments	49	40	89
Other Revenue	716	2	718
	<u>22,541</u>	<u>89,931</u>	<u>112,472</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
General Government	22,153	1,457	23,610
Public Safety	2,000		2,000
Public Works		88,285	88,285
	<u>24,153</u>	<u>89,742</u>	<u>113,895</u>
Total Cash Disbursements			
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(1,612)</u>	<u>189</u>	<u>(1,423)</u>
Other Financing Receipts/(Disbursements):			
Transfers-In		11,146	11,146
Transfers-Out		(11,146)	(11,146)
Other Sources	304		304
	<u>304</u>	<u>0</u>	<u>304</u>
Total Other Financing Receipts/(Disbursements)			
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(1,308)	189	(1,119)
Fund Cash Balances, January 1	<u>4,399</u>	<u>14,565</u>	<u>18,964</u>
Fund Cash Balances, December 31	<u>\$ 3,091</u>	<u>\$ 14,754</u>	<u>\$ 17,845</u>

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

**MASON TOWNSHIP
LAWRENCE COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$ 5,487	\$ 2,253	\$ 7,740
Intergovernmental	15,496	65,740	81,236
Earnings on Investments	23	66	89
Other Revenue	971	2	973
	<u>21,977</u>	<u>68,061</u>	<u>90,038</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
General Government	16,610		16,610
Public Safety	2,000		2,000
Public Works		54,628	54,628
Debt Service:			
Redemption of Principal	648	7,164	7,812
Interest and Fiscal Charges	3	573	576
	<u>19,261</u>	<u>62,365</u>	<u>81,626</u>
Total Cash Disbursements			
Total Cash Receipts Over/(Under) Cash Disbursements	<u>2,716</u>	<u>5,696</u>	<u>8,412</u>
Other Financing Receipts:			
Proceeds from Loan		4,138	4,138
Other Sources	300		300
	<u>300</u>	<u>4,138</u>	<u>4,438</u>
Total Other Financing Receipts			
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	3,016	9,834	12,850
Fund Cash Balances, January 1	<u>1,383</u>	<u>4,731</u>	<u>6,114</u>
Fund Cash Balances, December 31	<u>\$ 4,399</u>	<u>\$ 14,565</u>	<u>\$ 18,964</u>

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

**MASON TOWNSHIP
LAWRENCE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Mason Township, Lawrence 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 and cemetery maintenance. The Township contracts with Aid Township and Windsor Township volunteer fire departments to provide fire 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. 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 Fund:

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

**MASON TOWNSHIP
LAWRENCE COUNTY**

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

A summary of 2003 and 2002 budgetary activity appears in Note 3.

E. 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.

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:

	2003	2002
Demand deposits	<u>\$17,845</u>	<u>\$18,964</u>

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

**MASON TOWNSHIP
LAWRENCE COUNTY**

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

3. BUDGETARY ACTIVITY

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

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$21,977	\$22,845	\$868
Special Revenue	87,088	101,077	13,989
Total	\$109,065	\$123,922	\$14,857

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$26,376	\$24,153	\$2,223
Special Revenue	101,652	100,888	764
Total	\$128,028	\$125,041	\$2,987

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$23,231	\$22,277	(\$954)
Special Revenue	66,495	72,199	5,704
Total	\$89,726	\$94,476	\$4,750

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$24,614	\$19,261	\$5,353
Special Revenue	71,227	62,365	8,862
Total	\$95,841	\$81,626	\$14,215

Contrary to Ohio law, the Township did not encumber all funds prior to incurring the obligation.

**MASON TOWNSHIP
LAWRENCE COUNTY**

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

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the 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. RETIREMENT SYSTEM

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 2003 and 2002, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2003 and 2002. The Township has paid all contributions required through December 31, 2003.

6. RISK MANAGEMENT

Risk Pool Membership

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. 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 claim, including loss 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 \$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.

**MASON TOWNSHIP
LAWRENCE COUNTY**

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

6. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, 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 losses exceeding \$100,000. 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 reported the following assets, liabilities and retained earnings at December 31:

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$27,792,223	\$23,757,036
Liabilities	(11,791,300)	(9,197,512)
Retained earnings	<u>\$16,000,923</u>	<u>\$14,559,524</u>
 <u>Property Coverage</u>	 <u>2003</u>	 <u>2002</u>
Assets	\$6,791,060	\$6,596,996
Liabilities	(750,956)	(1,204,326)
Retained earnings	<u>\$6,040,104</u>	<u>\$5,392,670</u>

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**Auditor of State
Betty Montgomery**

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

Mason Township
Lawrence County
446 Township Road 209
Willow Wood, Ohio 45696

To the Board of Township Trustees:

We have audited the accompanying financial statements of Mason Township, Lawrence County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated August 24, 2004, wherein we noted that the Township's financial transactions were processed using 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 conduct the audit of the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 performed tests of 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2003-001. We also noted a certain immaterial instance of noncompliance that we have reported to management of the Township in a separate letter dated August 24, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order 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. 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 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.

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**Internal Control Over Financial Reporting
(Continued)**

However, we noted a matter involving the internal control over financial reporting that we have reported to the management of the Township in a separate letter dated August 24, 2004.

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

Betty Montgomery
Auditor of State

August 24, 2004

**MASON TOWNSHIP
LAWRENCE COUNTY**

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

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Rev. Code ' 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon:

The following exceptions to this basic requirement are provided by statute:

1. Then and Now Certificate - This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, 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 taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of subdivision or taxing district.
2. Amounts of less than one thousand dollars (which was increased to three thousand dollars on April 7, 2003) may be paid by the fiscal officer without such affirmation of the taxing authority 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 for expenditures by the taxing authority.

Certain liabilities, contracts, and open purchase commitments were not certified by the Township Clerk prior to incurring the obligation. There was no documentation that a then and now certificate was used and subsequently approved by the Board of Trustees within the aforementioned 30-day time period. 36% and 24% of expenditure transactions tested for 2002 and 2003, respectively, were not properly certified.

We recommend the Township Clerk certify the availability of funds prior to the obligation being made. Where prior certification is not practicable, we recommend the Township Clerk utilize then and now certificates or blanket certificates.

**MASON TOWNSHIP
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-40744-001	Ohio Rev. Code Section 5705.41(D), failure to certify funds	No	Reissued as Finding Number 2003-001



**Auditor of State
Betty Montgomery**

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MASON TOWNSHIP

LAWRENCE 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**