



Mary Taylor, CPA
Auditor of State

**LODI TOWNSHIP
ATHENS COUNTY**

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Mary Taylor, CPA

Auditor of State

Lodi Township
Athens County
17680 Mill School Road
Guysville, Ohio 45735

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

August 1, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Lodi Township
Athens County
17680 Mill School Road
Guysville, Ohio 45735

To the Board of Trustees:

We have audited the accompanying financial statements of Lodi Township, Athens 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 Section 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code Sections 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Lodi Township, Athens 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 August 1, 2007, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

August 1, 2007

LODI 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, 2006**

| | <u>Governmental Fund Types</u> | | | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|-------------------------|-----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | |
| Cash Receipts: | | | | | |
| Property and Other Local Taxes | \$ 30,330 | \$ 88,736 | \$ 7,905 | \$ 33,146 | \$ 160,117 |
| Intergovernmental | 18,499 | 112,074 | | 3,926 | 134,499 |
| Earnings on Investments | 2,019 | 537 | | | 2,556 |
| Miscellaneous | 401 | 13,700 | | | 14,101 |
| Total Cash Receipts | <u>51,249</u> | <u>215,047</u> | <u>7,905</u> | <u>37,072</u> | <u>311,273</u> |
| Cash Disbursements: | | | | | |
| Current: | | | | | |
| General Government | 54,394 | | | | 54,394 |
| Public Safety | | 12,794 | | | 12,794 |
| Public Works | | 168,356 | | | 168,356 |
| Health | 1,828 | 11,255 | | | 13,083 |
| Capital Outlay | | 30,959 | | 32,722 | 63,681 |
| Debt Service: | | | | | |
| Redemption of Principal | | | 7,382 | | 7,382 |
| Interest and Other Fiscal Charges | | | 524 | | 524 |
| Total Cash Disbursements | <u>56,222</u> | <u>223,364</u> | <u>7,906</u> | <u>32,722</u> | <u>320,214</u> |
| Total Cash Receipts Over/(Under) Cash Disbursements | (4,973) | (8,317) | (1) | 4,350 | (8,941) |
| Fund Cash Balances, January 1 | 47,488 | 164,804 | 1 | 36,377 | 248,670 |
| Fund Cash Balances, December 31 | <u>\$ 42,515</u> | <u>\$ 156,487</u> | <u>\$ 0</u> | <u>\$ 40,727</u> | <u>\$ 239,729</u> |

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

LODI 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, 2005**

| | <u>Governmental Fund Types</u> | | | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|-------------------------|-----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | |
| Cash Receipts: | | | | | |
| Property and Other Local Taxes | \$ 26,391 | \$ 80,413 | \$ 17,538 | \$ 23,262 | \$ 147,604 |
| Intergovernmental | 20,054 | 143,021 | | 5,503 | 168,578 |
| Earnings on Investments | 1,407 | 306 | | | 1,713 |
| Miscellaneous | 32,222 | 2,324 | | | 34,546 |
| Total Cash Receipts | 80,074 | 226,064 | 17,538 | 28,765 | 352,441 |
| Cash Disbursements: | | | | | |
| Current: | | | | | |
| General Government | 46,515 | | | | 46,515 |
| Public Safety | | 12,284 | | | 12,284 |
| Public Works | | 190,603 | | | 190,603 |
| Health | 1,822 | 10,352 | | | 12,174 |
| Capital Outlay | | 2,433 | | 8,654 | 11,087 |
| Debt Service: | | | | | |
| Redemption of Principal | | | 16,036 | | 16,036 |
| Interest and Other Fiscal Charges | | | 1,501 | | 1,501 |
| Total Cash Disbursements | 48,337 | 215,672 | 17,537 | 8,654 | 290,200 |
| Total Cash Receipts Over/(Under) Cash Disbursements | 31,737 | 10,392 | 1 | 20,111 | 62,241 |
| Other Financing Receipts / (Disbursements): | | | | | |
| Other Financing Sources | | 6,117 | | | 6,117 |
| Total Other Financing Receipts / (Disbursements) | 0 | 6,117 | 0 | 0 | 6,117 |
| Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements | 31,737 | 16,509 | 1 | 20,111 | 68,358 |
| Fund Cash Balances, January 1 | 15,751 | 148,295 | 0 | 16,266 | 180,312 |
| Fund Cash Balances, December 31 | \$ 47,488 | \$ 164,804 | \$ 1 | \$ 36,377 | \$ 248,670 |

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

**LODI TOWNSHIP
ATHENS 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 Lodi Township, Athens County (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, and fire protection.

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

The Township Fiscal Officer invests all available funds of the Township in an interest bearing checking account and certificates of deposit. The Township values certificates of deposits at cost.

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 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:

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

**LODI TOWNSHIP
ATHENS COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

3. Debt Service Funds

These funds account for resources the Township accumulates to pay bond and note debt. The Township had the following significant Debt Service Fund:

Bond/Note Retirement Fund – This fund receives property tax money for the purpose of retiring Township debt.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects. The Township had the following significant Capital Project Fund:

Permissive Motor Vehicle License Tax Fund – This fund receives motor vehicle license tax money to pay for constructing, maintaining, and repairing Township roads.

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 function 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 re-appropriated in the subsequent year.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

**LODI TOWNSHIP
ATHENS COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

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 Investments

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

| | 2006 | 2005 |
|-------------------------|------------|------------|
| Demand deposits | \$ 192,229 | \$ 201,170 |
| Certificates of deposit | 47,500 | 47,500 |
| Total deposits | \$ 239,729 | \$ 248,670 |

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

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 | \$ 56,931 | \$ 51,249 | \$ (5,682) |
| Special Revenue | 222,389 | 215,047 | (7,342) |
| Debt Service | 9,631 | 7,905 | (1,726) |
| Capital Projects | 37,017 | 37,072 | 55 |
| Total | \$ 325,968 | \$ 311,273 | \$ (14,695) |

2006 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|------------------|----------------------------|---------------------------|------------|
| General | \$ 80,632 | \$ 56,222 | \$ 24,410 |
| Special Revenue | 381,090 | 223,364 | 157,726 |
| Debt Service | 9,631 | 7,906 | 1,725 |
| Capital Projects | 56,377 | 32,722 | 23,655 |
| Total | \$ 527,730 | \$ 320,214 | \$ 207,516 |

**LODI TOWNSHIP
ATHENS COUNTY**

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

3. Budgetary Activity (Continued)

| 2005 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$ 80,411 | \$ 80,074 | \$ (337) |
| Special Revenue | 228,165 | 232,181 | 4,016 |
| Debt Service | 17,538 | 17,538 | 0 |
| Capital Projects | 28,456 | 28,765 | 309 |
| Total | \$ 354,570 | \$ 358,558 | \$ 3,988 |

| 2005 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$ 62,434 | \$ 48,337 | \$ 14,097 |
| Special Revenue | 302,742 | 215,672 | 87,070 |
| Debt Service | 17,538 | 17,537 | 1 |
| Capital Projects | 24,866 | 8,654 | 16,212 |
| Total | \$ 407,580 | \$ 290,200 | \$ 117,380 |

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Miscellaneous Special Revenue Fund 2901 and Miscellaneous Special Revenue Fund 2904 for the year ended December 31, 2006 and in the Road District Fund, Miscellaneous Special Revenue Fund 2901 and Miscellaneous Special Revenue Fund 2904 for the year ended December 31, 2005.

4. Property Tax

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

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

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

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

**LODI TOWNSHIP
ATHENS COUNTY**

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

5. Debt

Debt outstanding at December 31, 2006, was as follows:

| | Principal | Interest Rate |
|-----------------|-----------|------------------|
| Dump Truck Loan | \$ 7,547 | 4.9% |

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

| Year ending December 31: | Dump Truck Loan |
|-----------------------------|--------------------|
| 2007 | \$ 7,906 |

6. Retirement System

The Township's elected officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 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.

7. Risk Management

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

**LODI TOWNSHIP
ATHENS COUNTY**

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

7. Risk Management (Continued)

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

**LODI TOWNSHIP
ATHENS COUNTY**

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

7. Risk Management (Continued)

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 \$16,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

| <u>Contributions to OTARMA</u> | | |
|--------------------------------|----|-------|
| 2004 | \$ | 5,490 |
| 2005 | \$ | 5,786 |
| 2006 | \$ | 8,062 |

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they give written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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Mary Taylor, CPA

Auditor of State

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

Lodi Township
Athens County
17680 Mill School Road
Guysville, Ohio 45735

To the Board of Trustees:

We have audited the financial statements of Lodi Township, Athens County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated August 1, 2007, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of the 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: 2006-002 and 2006-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

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

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated August 1, 2007.

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 to 2006-003.

We did note certain noncompliance or other matters that we reported to the Township's management in a separate letter dated August 1, 2007.

The Township's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Township's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

August 1, 2007

**LODI TOWNSHIP
ATHENS COUNTY**

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

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

FINDING NUMBER 2006-001

Finding for Recovery – Repaid Under Audit

Employees should only be paid based on the number of hours worked per their timesheets. Roger Howard was employed by the Township at a rate of \$13.85 per hour. For pay period February 1 through February 28, 2006, Roger Howard's time sheets reflect 23.5 total hours worked. However, he was paid for 65 hours worked, resulting in an overpayment as follows:

| | | Hourly Rate | Calculation |
|--------------------------|------|-------------|------------------|
| Hours per Payroll Ledger | 65 | \$13.85 | \$ 900.25 |
| Hours per Timesheet | 23.5 | \$13.85 | 325.48 |
| Overpayment | 41.5 | | <u>\$ 574.77</u> |

Per review of the time sheet for this pay period, it was not signed by any of the Trustees. However, the canceled check was signed by Trustees Roger Hawk, David Bircher and Richard Howard, as well as Fiscal Officer Rosemary Kayser.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery is hereby issued for public monies illegally expended against Roger Howard, Township employee, and Township Trustees Roger Hawk and David Bircher, and the Ohio Township Risk Management Authority, the Trustees' bonding company, as well as Richard Howard, Township Trustee, Rosemary Kayser, Township Fiscal Officer, and the Cincinnati Insurance Company, their bonding company, jointly and severally, in the amount of \$574.77, in favor of the Gasoline Tax Fund of Lodi Township.

This Finding for Recovery was repaid in full on August 10, 2007.

Client Response:

The officials chose not to respond to this finding.

FINDING NUMBER 2006-002

Noncompliance Citation/Significant Deficiency

Ohio Rev. Code Section 149.351(A) establishes guidelines against the destruction or damage of records. All records are the property of the public office and shall not be removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law.

In 2006, 7.2% of nonpayroll expenditures and in 2005, 2.7% of nonpayroll expenditures did not contain sufficient supporting documentation, such as an original invoice. However, these transactions were otherwise to routine vendors of the Township and were otherwise properly approved.

**LODI TOWNSHIP
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

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

FINDING NUMBER 2006-002 (Continued)

Noncompliance Citation/Significant Deficiency – Ohio Rev. Code Section 149.351(A) (Continued)

Inadequate supporting documentation eliminates a significant control point, obscures the audit trail and provides for the opportunity for errors and irregularities occurring and not being detected by management in a timely manner. In addition, lack of adequate supporting documentation could result in the Township making inappropriate disbursements for goods or services not actually received by the Township.

We recommend that no payment be made from the Township treasury that is not supported by an approved voucher package that would include, at a minimum, an original invoice or receipt for expenditures.

Client Response:

The Fiscal Officer responded that she does keep the documentation but does not always attach it to the check stubs.

FINDING NUMBER 2006-003

Noncompliance Citation/Significant Deficiency

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated.

Disbursements exceeded legally adopted appropriations at December 31, 2006 in the following funds:

| <u>Fund</u> | <u>Appropriations</u> | <u>Disbursements</u> | <u>Variance</u> |
|--------------------------------------|-----------------------|----------------------|-----------------|
| Miscellaneous Special Revenue - 2901 | \$ 0 | \$ 13,311 | \$ (13,311) |
| Miscellaneous Special Revenue - 2904 | 0 | 1,657 | (1,657) |

Disbursements exceeded legally adopted appropriations at December 31, 2005 in the following funds:

| <u>Fund</u> | <u>Appropriations</u> | <u>Disbursements</u> | <u>Variance</u> |
|--------------------------------------|-----------------------|----------------------|-----------------|
| Road District | \$ 19,208 | \$ 20,998 | \$ (1,790) |
| Miscellaneous Special Revenue - 2901 | 0 | 14,697 | (14,697) |
| Miscellaneous Special Revenue - 2904 | 0 | 27,660 | (27,660) |

Spending monies which have not been properly appropriated could result in deficit cash balances.

**LODI TOWNSHIP
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

| |
|---|
| <p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p> |
|---|

FINDING NUMBER 2006-003 (Continued)

Noncompliance Citation/Significant Deficiency – Ohio Rev. Code Section 5705.41(B) (Continued)

We recommend the Township Fiscal Officer not certify the availability of funds or approve payment requests exceeding appropriations. The Township Fiscal Officer may request the Board of Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources if necessary.

Client Response:

The Fiscal Officer responded by indicating that she was unsure how this could happen with the UAN system. The Fiscal Officer gives financial reports to the Trustees monthly and they are careful not to spend more than the checking balance.

**LODI TOWNSHIP
ATHENS 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; <i>Explain</i> |
|----------------|--|------------------|--|
| 2004-001 | A Finding for Recovery Repaid Under Audit related to the Fiscal Officer being overpaid | Yes | |
| 2004-002 | A Finding for Adjustment for Trustees salaries not being correctly allocated in 2003. | Yes | |
| 2004-003 | A material non-compliance citation was issued under Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations. | No | Not Corrected: This item is repeated in the current audit Schedule of Findings as item 2006-003. |



Mary Taylor, CPA
Auditor of State

LODI 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
NOVEMBER 13, 2007**