
**SOMERFORD TOWNSHIP
MADISON COUNTY**

REGULAR AUDIT

YEARS ENDED DECEMBER 31, 2006 & 2005

Whited Seigneur Sams & Rahe, LLP
CERTIFIED PUBLIC ACCOUNTANTS



213 South Paint Street • Chillicothe, Ohio 45601-3828
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Mary Taylor, CPA

Auditor of State

Board of Trustees
Somerset Township
PO Box 861
London, OH 43140

We have reviewed the *Independent Auditors' Report* of Somerset Township, Madison County, prepared by Whited, Seigneur, Sams & Rahe CPAs, LLP, for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 13, 2007

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**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO**

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Whited Seigneur Sams & Rahe, LLP

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August 8, 2007

Board of Trustees, Somerford Township
Madison County
PO Box 861
London, OH 43140

Independent Auditors' Report

We have audited the accompanying financial statements of Somerford Township, Madison 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of the 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 accounting principles generally accepted in the United States of America, we presume they are material.

Instead of the combined funds the accompanying financial statements present for 2006 and 2005, 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements. Since this Township does not use GAAP to measure financial statement amounts, 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 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 and reserves for encumbrances of the Township as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. 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 8, 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Respectfully submitted,

WHITED SEIGNEUR SAMS & RAHE CPAs, LLP

A handwritten signature in cursive script that reads "Whited Seigneur Sams & Rahe".

**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO
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>General</u>	<u>Special Revenue</u>	<u>Memorandum Only Total</u>
CASH RECEIPTS			
Local Taxes	\$102,617	\$ 73,739	\$ 176,356
Intergovernmental Receipts	95,368	106,910	202,278
Licenses, Permits, & Fees	682	19,403	20,085
Earnings on Investments	2,046	616	2,662
Other Revenue	<u>0</u>	<u>614</u>	<u>614</u>
TOTAL CASH RECEIPTS	200,713	201,282	401,995
CASH DISBURSEMENTS			
General Government	119,234	2,948	122,182
Public Works	3,279	80,581	83,860
Public Safety	0	75,404	75,404
Health	32,075	3,737	35,812
Capital Outlay	0	22,218	22,218
Debt Service:			
Redemption of Principal	0	11,737	11,737
Interest and Other Fiscal Charges	<u>0</u>	<u>663</u>	<u>663</u>
TOTAL CASH DISBURSEMENTS	<u>154,588</u>	<u>197,288</u>	<u>351,876</u>
TOTAL CASH RECEIPTS OVER/ (UNDER) CASH DISBURSEMENTS	46,125	3,994	50,119
Fund Cash Balances, January 1, 2006	<u>150,302</u>	<u>151,840</u>	<u>302,142</u>
Fund Cash Balances, December 31, 2006	<u>\$ 196,427</u>	<u>\$ 155,834</u>	<u>\$ 352,261</u>
Reserved for Encumbrances, December 31, 2006	<u>\$ 4,389</u>	<u>\$ 6,664</u>	<u>\$ 11,053</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES – NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Nonexpendable <u>Trust</u>
OPERATING CASH RECEIPTS	
Interest	\$ <u>22</u>
TOTAL OPERATING CASH RECEIPTS	<u>22</u>
OPERATING CASH DISBURSEMENTS	
Purchased Services	<u>0</u>
TOTAL OPERATING CASH DISBURSEMENTS	<u>0</u>
EXCESS OF OPERATING RECEIPTS OVER/ (UNDER) OPERATING DISBURSEMENTS	22
Fund Cash Balance, January 1, 2006	<u>1,888</u>
Fund Cash Balance, December 31, 2006	<u>\$ 1,910</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO
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>General</u>	<u>Special Revenue</u>	<u>Memorandum Only Total</u>
CASH RECEIPTS			
Local Taxes	\$ 94,633	\$ 81,437	\$ 176,070
Intergovernmental Receipts	93,908	109,332	203,240
Licenses, Permits, & Fees	1,420	23,276	24,696
Earnings on Investments	892	472	1,364
Other Revenue	<u>1,274</u>	<u>5,205</u>	<u>6,479</u>
TOTAL CASH RECEIPTS	192,127	219,722	411,849
CASH DISBURSEMENTS			
General Government	133,009	2,550	135,559
Public Works	1,996	54,387	56,383
Public Safety	0	98,970	98,970
Health	46,656	12,721	59,377
Capital Outlay	9,805	6,256	16,061
Debt Service:			
Redemption of Principal	2,444	11,109	13,553
Interest and Other Fiscal Charges	<u>57</u>	<u>1,291</u>	<u>1,348</u>
TOTAL CASH DISBURSEMENTS	<u>193,967</u>	<u>187,284</u>	<u>381,251</u>
TOTAL CASH RECEIPTS OVER/ (UNDER) CASH DISBURSEMENTS	(1,840)	32,438	30,598
Fund Cash Balances, January 1, 2005	<u>152,142</u>	<u>119,402</u>	<u>271,544</u>
Fund Cash Balances, December 31, 2005	<u>\$ 150,302</u>	<u>\$ 151,840</u>	<u>\$ 302,142</u>
Reserved for Encumbrances, December 31, 2005	<u>\$ 1,993</u>	<u>\$ 471</u>	<u>\$ 2,464</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES – NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Nonexpendable <u>Trust</u>
OPERATING CASH RECEIPTS	
Interest	\$ <u>28</u>
TOTAL OPERATING CASH RECEIPTS	<u>28</u>
OPERATING CASH DISBURSEMENTS	
Purchased Services	<u>0</u>
TOTAL OPERATING CASH DISBURSEMENTS	<u>0</u>
EXCESS OF OPERATING RECEIPTS OVER/ (UNDER) OPERATING DISBURSEMENTS	28
Fund Cash Balance, January 1, 2005	<u>1,860</u>
Fund Cash Balance, December 31, 2005	<u><u>\$ 1,888</u></u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **Description of the Entity**

Somerford Township, Madison County, Ohio (the Township) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly elected three-member Board of Trustees. The Township provides general governmental services including road and bridge maintenance and cemetery maintenance. The Township contracts with Central Township Fire Department and Village of Mechanicsburg Fire Department to provide fire protection and emergency medical services, respectively .

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

- **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.

- **Fund Accounting**

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

- **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.
- **Special Revenue Funds** - These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

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

Fire District Fund - This fund receives property tax money to pay for a fire contract with the Central Township Fire Department.

- **Fiduciary Fund (Trust Fund)** - This fund is used to account for resources restricted by legally binding trust agreement. The Township had the following fiduciary fund:

Cemetery Bequest Funds (Non-Expendable Trust) - This fund receives restricted donations. Interest earned may be used to maintain graves in the cemetery.

**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually.

- **Appropriations** - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function and 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.
- **Estimated Resources** - Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.
- **Encumbrances** - The Ohio Revised Code requires the Township to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are carried over and need not be re-appropriated in the subsequent year.

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

- **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.

- **Cash and Investments**

The Township maintains a cash and investments pool used by all funds. The Township had one primary checking account and invested in certificates of deposit during the audit period.

Certificates of deposit are valued at cost. Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Township maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits. Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form. The carrying amount of cash at December 31 was as follows:

	2006	2005
Demand Deposits	\$ 339,206	\$ 289,082
Certificate of Deposits	14,965	14,948
Total Fund Cash Balances	\$ 354,171	\$ 304,030

Deposits

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

**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS**

3. BUDGETARY ACTIVITY

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

2006 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
General	\$ 118,100	\$ 200,713	\$ 82,613
Special Revenue	139,300	201,282	61,982
Non-expendable Trust	<u>0</u>	<u>22</u>	<u>22</u>
Total	<u>\$ 257,400</u>	<u>\$ 402,017</u>	<u>\$ 144,617</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 275,900	\$ 156,984	\$ 118,916
Special Revenue	288,300	203,481	84,819
Non-expendable Trust	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 564,200</u>	<u>\$ 360,465</u>	<u>\$ 203,735</u>

2005 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
General	\$ 110,000	\$ 192,127	\$ 82,127
Special Revenue	179,510	219,722	40,212
Non-expendable Trust	<u>0</u>	<u>28</u>	<u>28</u>
Total	<u>\$ 289,510</u>	<u>\$ 411,877</u>	<u>\$ 122,367</u>

2005 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 255,000	\$ 195,050	\$ 59,950
Special Revenue	265,100	187,443	77,657
Non-expendable Trust	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 520,100</u>	<u>\$ 382,493</u>	<u>\$ 137,607</u>

Contrary to Ohio law, the Township did not properly encumber all commitments during 2006 and 2005 nor were increased amended certificates of estimated resources obtained. Also contrary to Ohio law, 2006 General Fund appropriations exceeded total estimated resources.

**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS**

4. PROPERTY TAX

Real property taxes become a lien on January 1 proceeding 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 payments, the first half is due December 31. The second half payment is due the following June 20.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30. Public utilities are also assessed on personal and real property located within the Township.

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

Contrary to Ohio law, property tax receipts were not properly posted by the Township to the appropriate funds. The audited financial statements reflect accurate posting to the appropriate fund and revenue account.

5. RETIREMENT SYSTEMS

The Township's personnel belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a 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 2005, members of OPERS contributed 8.5 percent of their gross salaries and the Township contributed an amount equaling 13.55 percent of participants' gross salaries. For 2006, members of OPERS contributed 9.0 percent of their gross salaries and the Township contributed an amount equaling 13.70 percent 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 Workers' Compensation.

For 2005 and until June 20, 2006, the Township belonged to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with over 500 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to Section 2722.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety, and bond, inland marine, and other coverage's, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS**

6. RISK MANAGEMENT (Continued)

The Plan uses conventional insurance coverage and reinsures these coverage's 100%, rather than using a risk pool of member funds to pay individual and collective losses. Therefore, the individual members are only responsible for their self-retention (deductible) amounts which vary from member to member.

The Township also provides health insurance coverage to the elected officials and full-time employees through private carriers.

Starting June 20, 2006, The Township became a member of the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

- **Casualty Coverage**

OTARMA retains casualty 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 or \$3,000,000 as noted above.

- **Property Coverage**

The Travelers Indemnity Company reinsures specific losses exceeding \$250,000 up to \$600,000,000 per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. The Travelers Indemnity Company also provides aggregate stop loss coverage based upon the combined members' total insurance value. 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 \$600,000,000 per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS**

6. RISK MANAGEMENT (Continued)

- **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 (the latest information available):

<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>		
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>

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. 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 twice the most recent annual premium. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

Based upon 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.

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they provide 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.

7. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed cost may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience management believes such refunds, if any, would not be material.

Whited Seigneur Sams & Rahe, LLP

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August 8, 2007

Board of Trustees, Somerford Township
Madison County
PO Box 861
London, OH 43140

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

We have audited the accompanying financial statements of Somerford Township, Madison County, Ohio (the Township) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated August 8, 2007, wherein we noted the Township followed accounting practices the Auditor of State prescribes or permitted rather than accounting principles generally accepted in the United States of America. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we do not express an opinion 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 to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 entity'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 a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as Findings 2006-003 and 2006-004 to be a significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 considered to be material weaknesses. However, we consider the significant deficiency described above, Finding 2006-003, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2006-001, 2006-002, 2006-003 and 2006-005.

We noted certain matters that we reported to management of the Township in a separate letter dated August 8, 2007.

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

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

Respectfully submitted,

WHITED SEIGNEUR SAMS & RAHE CPAs, LLP



SOMERFORD TOWNSHIP

MADISON COUNTY, OHIO SCHEDULE OF FINDINGS AND RESPONSES DECEMBER 31, 2006 AND 2005

FINDING 2006-001- Material Noncompliance Citation

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

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. 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.

91% of transactions examined were not properly certified prior to receiving goods and/or services.

**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2006 AND 2005**

FINDING 2006-001 (Continued)

Unless the Township uses the exceptions noted above, prior certification is not only required by statute but also 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/Treasurer certify that 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.

We recommend the officials and employees obtain the Fiscal Officer/Treasurer'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/Treasurer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Township should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

Auditee's Response: We did not receive a response from Officials for this finding.

FINDING 2006-002- Material Noncompliance Citation

Ohio Rev. Code, Section 5705.36(A)(2) allows all subdivisions to request increase amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenues collected will be greater or less than the amount in the official certificate of estimated resources.

In both 2006 and 2005, actual receipts were significantly greater than the estimated receipts in various funds. The Township did not obtain an increased amended certificate .

The Township Trustees and Fiscal Officer should monitor budget versus actual activity on a monthly basis to identify whether budgetary amendments are necessary.

Auditee's Response: We did not receive a response from Officials for this finding.

**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2006 AND 2005**

FINDING 2006-003- Material Noncompliance Citation and Material Weakness

Revenue Posting

Ohio Revised Code Section 5705.10 governs the requirements of distributing revenue derived from tax levies, proceeds from sale of bond issue, and proceeds from sale of permanent improvement. A significant amount of tax and intergovernmental receipts were recorded inaccurately to the incorrect fund and/or revenue account.

Posting receipts to improper funds and/or revenue classifications results in inaccurate financial information being presented to the Township Trustees. This also leads to the disbursing of funds for an unintended purpose. Reclassification entries to the accompanying financial statements were made to accurately reflect the proper classification of receipts.

Failure to properly record transactions reduces the effectiveness of internal control over financial reporting and can lead to material misstatement. The Fiscal Officer should become familiar with the Ohio Township Handbook and the Uniform Accounting Network Accounting Manual.

Auditee's Response: We did not receive a response from Officials for this finding.

FINDING 2006-004- Significant Control Deficiency

Internal Controls Over Cemetery Activities

The Township employs a Sexton to manage Cemetery activities. During 2005, duplicate receipts were not issued by the Sexton for payments received for burial lot sales and other fees. Deeds were not executed for all lots sold during both 2006 and 2005. Deeds are not pre-numbered, which would enable the Township to better manage the issuance of Deeds.

This significant lack of control procedures can permit material misstatements in financial reporting and provides the opportunity for the misappropriation of Township funds. The Township should implement control procedures regarding the cash receipts for the Cemetery activities which include the issuance of duplicate receipts to patrons, issuing pre-numbered Deeds, and maintaining a control log of lot sales which cross-references to a pre-numbered Deed.

Auditee's Response: We did not receive a response from Officials for this finding.

**SOMERFORD TOWNSHIP
MADISON COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
DECEMBER 31, 2006 AND 2005**

FINDING 2006-005- Material Noncompliance Citation

Total Appropriations Exceeding Estimated Resources

Ohio Revised Code Section 5705.39 states that total appropriations from each fund shall not exceed the total estimated resources. The 2006 General Fund appropriations exceeded the estimated resources by \$9,491. The Township should ensure that all audit adjustments are posted to the UAN system to ensure agreement with the audited financial statements and prevent budgetary noncompliance.

Auditee's Response: We did not receive a response from Officials for this finding.



Mary Taylor, CPA
Auditor of State

SOMERFORD TOWNSHIP

MADISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 27, 2007**