



Mary Taylor, CPA
Auditor of State

LEWIS TOWNSHIP
BROWN COUNTY

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Mary Taylor, CPA
Auditor of State

Lewis Township
Brown County
3025 Eden Road
Hamersville, Ohio 45130

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

May 14, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Lewis Township
Brown County
3025 Eden Road
Hamersville, Ohio 45130

To the Board of Trustees:

We have audited the accompanying financial statements of Lewis Township, Brown County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

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

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, 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 Lewis Township, Lewis County, 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 May 14, 2008, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

May 14, 2008

**LEWIS TOWNSHIP
BROWN 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>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property and Other Local Taxes	\$31,202	\$75,532	\$0	\$106,734
Intergovernmental	80,150	109,017	0	189,167
Earnings on Investments	2,218	30	19,959	22,207
Miscellaneous	230	1,700	27,556	29,486
	<u>113,800</u>	<u>186,279</u>	<u>47,515</u>	<u>347,594</u>
Cash Disbursements:				
Current:				
General Government	36,788	6,248	0	43,036
Public Safety	0	60,378	0	60,378
Public Works	19,344	116,475	0	135,819
Health	57,536	312	0	57,848
Capital Outlay	0	124	1,653	1,777
Debt Service:				
Redemption of Principal	12,488	0	0	12,488
Interest and Other Fiscal Charges	2,054	0	0	2,054
	<u>128,210</u>	<u>183,537</u>	<u>1,653</u>	<u>313,400</u>
Total Receipts Over / (Under) Disbursements	<u>(14,410)</u>	<u>2,742</u>	<u>45,862</u>	<u>34,194</u>
Other Financing Receipts:				
Sale of Fixed Assets	<u>15,000</u>	<u>0</u>	<u>0</u>	<u>15,000</u>
Total Other Financing Receipts	<u>15,000</u>	<u>0</u>	<u>0</u>	<u>15,000</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements	590	2,742	45,862	49,194
Fund Cash Balances, January 1	<u>2,067</u>	<u>79,630</u>	<u>359,303</u>	<u>441,000</u>
Fund Cash Balances, December 31	<u>\$2,657</u>	<u>\$82,372</u>	<u>\$405,165</u>	<u>\$490,194</u>
Reserve for Encumbrances, December 31	<u>\$555</u>	<u>\$0</u>	<u>\$0</u>	<u>\$555</u>

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

**LEWIS TOWNSHIP
BROWN 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>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Property and Other Local Taxes	\$30,336	\$75,610	\$0	\$0	\$105,946
Intergovernmental	38,965	98,257	25,041	0	162,263
Earnings on Investments	949	66	0	785	1,800
Miscellaneous	0	4,156	0	311,331	315,487
Total Cash Receipts	<u>70,250</u>	<u>178,089</u>	<u>25,041</u>	<u>312,116</u>	<u>585,496</u>
Cash Disbursements:					
Current:					
General Government	30,348	6,162	0	0	36,510
Public Safety	0	60,904	0	0	60,904
Public Works	29,591	101,212	0	0	130,803
Health	10,422	440	0	0	10,862
Capital Outlay	53,129	1,903	25,041	0	80,073
Total Cash Disbursements	<u>123,490</u>	<u>170,621</u>	<u>25,041</u>	<u>0</u>	<u>319,152</u>
Total Receipts Over/(Under) Disbursements	<u>(53,240)</u>	<u>7,468</u>	<u>0</u>	<u>312,116</u>	<u>266,344</u>
Other Financing Receipts:					
Other Debt Proceeds	53,025	0	0	0	53,025
Total Other Financing Receipts	<u>53,025</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>53,025</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements	(215)	7,468	0	312,116	319,369
Fund Cash Balances, January 1	2,282	72,162	0	47,187	121,631
Fund Cash Balances, December 31	<u><u>\$2,067</u></u>	<u><u>\$79,630</u></u>	<u><u>\$0</u></u>	<u><u>\$359,303</u></u>	<u><u>\$441,000</u></u>
Reserve for Encumbrances, December 31	<u>\$879</u>	<u>\$5,085</u>	<u>\$0</u>	<u>\$0</u>	<u>\$5,964</u>

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

**LEWIS TOWNSHIP
BROWN COUNTY**

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

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Lewis Township, Brown County, Ohio (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 emergency medical services. The Township contracts with the Village of Higginsport and Clark Township, both of Brown County, to provide fire protection services.

The Township participates in OTARMA public entity risk pool. Note 6 to the financial statements provide additional information for this entity.

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 Deposits

The Township funds are deposited in an interest-bearing checking account and certificates of deposit. All deposits are valued at cost.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

Fire Levy Fund - This fund receives proceeds from the property tax levy for providing fire protection to Township residents.

**LEWIS TOWNSHIP
BROWN COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

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

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Township had the following significant capital project funds

Federal Emergency Management Agency (FEMA) Fund - The Township received a grant from FEMA in 2005 to fix road damage due to an ice storm.

4. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Township had the following significant permanent fund:

Wilson Estate Fund – This fund received a large settlement from the Beatrice Wilson estate, per instructions from the decedents will. The earnings are used for the general maintenance and upkeep of the Township's cemetery.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. 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.

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not encumber all commitments required by Ohio law.

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

**LEWIS TOWNSHIP
BROWN 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 Deposits

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

	2005	2006
Demand deposits	\$83,008	\$29,647
Certificates of deposit	357,992	460,547
Total deposits	\$441,000	\$490,194

Deposits: Deposits are insured by the Federal Depository 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	\$146,446	\$128,800	(\$17,646)
Special Revenue	185,983	186,279	296
Permanent	29,939	47,515	17,576
Total	\$362,368	\$362,594	\$226

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$149,392	\$128,765	\$20,627
Special Revenue	270,698	183,537	87,161
Permanent	330,027	1,653	328,374
Total	\$750,117	\$313,955	\$436,162

**LEWIS TOWNSHIP
BROWN 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	\$70,877	\$123,275	\$52,398
Special Revenue	177,655	178,089	434
Capital Projects	25,041	25,041	0
Permanent	312,128	312,116	(12)
Total	\$585,701	\$638,521	\$52,820

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$73,357	\$124,369	(\$51,012)
Special Revenue	247,659	175,706	71,953
Capital Projects	25,041	25,041	0
Permanent	1,324	0	1,324
Total	\$347,381	\$325,116	\$22,265

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$51,012 for the year ended December 31, 2005, due to an adjustment for the purchase of a dump truck through a lease purchase agreement.

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.

**LEWIS TOWNSHIP
BROWN COUNTY**

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

5. Capital Lease

In 2005, the Township entered into a lease-purchase agreement for the purchase of a new dump truck. The Township is leasing the project from the Ohio Township Association. The Township makes semi-annual lease payments to Key Bank. Interest rates are fixed.

In 2006, the Township made the first and second scheduled principal payments totaling \$12,488. The principal amount owed on the lease at year-end is \$40,537.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2006.

Dump Truck Lease	
Fiscal Year	
Ending December 31,	Total
2007	\$14,542
2008	14,542
2009	14,543
Total	43,627
Less Amount Representing Interest	(3,090)
Present Value of Minimum Lease Payments	<u>\$40,537</u>

6. Retirement Systems

Township officials and part-time employees 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 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 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

**LEWIS TOWNSHIP
BROWN COUNTY**

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

7. Risk Management (Continued)

Casualty Coverage

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

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

The aforementioned casualty and property reinsurance agreements do not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005:

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$32,031,312	\$30,485,638
Liabilities	<u>(11,443,952)</u>	<u>(12,344,576)</u>
Retained earnings	<u>\$20,587,360</u>	<u>\$18,141,062</u>

**LEWIS TOWNSHIP
BROWN COUNTY**

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

7. Risk Management (Continued)

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

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$8,900. 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	\$3,710.00
2005	\$3,546.00
2006	\$4,450.00

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*

Lewis Township
Brown County
3025 Eden Road
Hamersville, Ohio 45130

To the Township Board of Trustees:

We have audited the financial statements of Lewis Township, Brown County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated May 14, 2008 wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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 deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We noted certain matters that we reported to the Township's management in a separate letter dated May 14, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 and 2006-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated May 14, 2008.

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



Mary Taylor, CPA
Auditor of State

May 14, 2008

LEWIS TOWNSHIP
BROWN 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

Material Noncompliance and Significant Deficiency

Ohio Rev. Code, Section 5705.41(D1), 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.

**FINDING NUMBER 2006-001
 (Continued)**

Contrary to the above requirement, the availability of funds was not certified for 29% (26% from 2005 and 30% from 2006) of the expenditures tested. Additionally, 6 of the 63 applicable transactions tested (10%) did not have purchase orders. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash balances. As a result of not properly using purchase orders, unrecorded reserve for encumbrances in the amount of \$879 in the General Fund, \$681 in the Gas Tax Fund, \$1,628 in the Motor Vehicle License Fund, and \$2,776 in the Permissive Motor Vehicle Fund in 2005, and \$555 in the General Fund in 2006 were noted. The Township made the adjustments to include the outstanding encumbrances on the financial statements.

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 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 Township certify purchases to which R.C. 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language R.C. 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification prior to the Township incurring a commitment, and only when the requirements of R.C.5705.41(D) are satisfied. The Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2006-002

Material Noncompliance

Ohio Rev. Code, Section 5705.41(B), provides that no subdivision or taxing unit is to expend money unless it has been properly appropriated. Expenditures exceeded appropriations in the following funds:

<u>Year</u>	<u>Fund</u>	<u>Appropriations</u>	<u>Disbursements</u>	<u>Variance</u>
2005	General	73,357	124,369	(51,012)
2005	MVL	14,553	16,316	(1,763)
2005	PMVL	20,231	21,607	(1,376)

The General Fund variance is due to an adjustment made for the purchase of a dump truck through a lease purchase agreement, in which the expenditure was not properly recorded. The Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk may request the Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

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

LEWIS TOWNSHIP
BROWN 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	Revised Code 5705.41(D). Failure to certify funds.	No	See finding 2006-001



Mary Taylor, CPA
Auditor of State

LEWIS TOWNSHIP

BROWN 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
JULY 8, 2008**