



**Auditor of State
Betty Montgomery**

**LEMON TOWNSHIP
BUTLER COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Lemon Township
Butler County
3839 Northbrook Lane
Middletown, Ohio 45044

To the Board of Trustees:

We have audited the accompanying financial statements of Lemon Township, Butler County, Ohio (the Township), as of and for the years ended December 31, 2002 and 2001. 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 discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Township as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2004, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board of Trustees, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

January 9, 2004

**LEMON TOWNSHIP
BUTLER COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Intergovernmental	\$91,377	\$58,147	\$149,524
Special Assessments		7,384	7,384
Licenses, Permits, and Fees	8,739		8,739
Fines, Forfeitures, and Penalties	7,621	818	8,439
Earnings on Investments	36,634	15,249	51,883
Other Revenue	1,286		1,286
	<u>145,657</u>	<u>81,598</u>	<u>227,255</u>
Cash Disbursements:			
Current:			
General Government	135,811		135,811
Public Safety	219,249	1,400	220,649
Public Works	1,896	16,949	18,845
Capital Outlay	245	3,001	3,246
	<u>357,201</u>	<u>21,350</u>	<u>378,551</u>
Total Receipts Over/(Under) Disbursements	<u>(211,544)</u>	<u>60,248</u>	<u>(151,296)</u>
Fund Cash Balances, January 1	<u>1,226,850</u>	<u>637,562</u>	<u>1,864,412</u>
Fund Cash Balances, December 31	<u>\$1,015,306</u>	<u>\$697,810</u>	<u>\$1,713,116</u>

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

**LEMON TOWNSHIP
BUTLER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Special Assessment	\$3,255		\$3,255
Intergovernmental	319,639	\$65,866	385,505
Licenses, Permits, and Fees	8,421		8,421
Fines, Forfeitures, and Penalties	6,833	1,307	8,140
Earnings on Investments	27,830	3,082	30,912
Other Revenue	5,962		5,962
	<u>371,940</u>	<u>70,255</u>	<u>442,195</u>
Cash Disbursements:			
Current:			
General Government	160,111		160,111
Public Safety	144,200	2,152	146,352
Public Works	5,619	122,471	128,090
Health		3,000	3,000
Capital Outlay	1,196	1,446	2,642
	<u>311,126</u>	<u>129,069</u>	<u>440,195</u>
Total Receipts Over/(Under) Disbursements	<u>60,814</u>	<u>(58,814)</u>	<u>2,000</u>
Fund Cash Balances, January 1	<u>1,166,036</u>	<u>696,376</u>	<u>1,862,412</u>
Fund Cash Balances, December 31	<u><u>\$1,226,850</u></u>	<u><u>\$637,562</u></u>	<u><u>\$1,864,412</u></u>

**LEMON TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Lemon Township, Butler 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 road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the City of Monroe to provide police and fire services. The Township also contracts with the City of Monroe for street maintenance.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Certificates of deposit are valued at cost. Money market mutual funds are recorded at share values reported by the mutual fund.

D. 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:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

Motor Vehicle License Tax Fund - This fund receives motor vehicle tax money for constructing, maintaining, and repairing Township roads.

**LEMON TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not encumber all commitments required by Ohio law. As of December 31, 2002 and 2001, there were no material unrecorded encumbrances outstanding.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2002	2001
Demand deposits	\$699,930	\$660,831
Certificates of deposit	500,000	500,000
Total deposits	1,199,930	1,160,831
Money market mutual fund	513,186	703,581
Total investments	513,186	703,581
Total deposits and investments	\$1,713,116	\$1,864,412

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

**LEMON TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Investments: Investments in mutual funds are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$131,207	\$145,657	\$14,450
Special Revenue	70,801	81,598	10,797
Total	\$202,008	\$227,255	\$25,247

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,359,486	\$357,201	\$1,002,285
Special Revenue	706,933	21,350	685,583
Total	\$2,066,419	\$378,551	\$1,687,868

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$366,842	\$371,940	\$5,098
Special Revenue	59,710	70,255	10,545
Total	\$426,552	\$442,195	\$15,643

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,533,674	\$311,126	\$1,222,548
Special Revenue	755,898	129,069	626,829
Total	\$2,289,572	\$440,195	\$1,849,377

4. RETIREMENT SYSTEMS

The Township's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. The plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 2002.

**LEMON TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

5. RISK MANAGEMENT

Risk Pool Membership

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

OTARMA retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$10,000 on any specific loss with an annual aggregate of \$700,000 for 2001 and \$1,250,000 for 2002. The Travelers Indemnity Company reinsures losses exceeding \$10,000 if the annual aggregate is reached and all specific losses exceeding \$100,000. APEEP's Operating Fund and Guarantee Fund pay for losses and loss adjustment expenses should they exceed operating contributions.

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

Financial Position

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

<u>Casualty Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$23,757,036	\$23,703,776
Liabilities	<u>(9,197,512)</u>	<u>(9,379,003)</u>
Retained earnings	<u>\$14,559,524</u>	<u>\$14,324,773</u>

LEMON TOWNSHIP
BUTLER COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)

5. RISK MANAGEMENT (Continued)

<u>Property Coverage</u>	2002	<u>2001</u>
Assets	\$6,596,996	\$5,011,131
Liabilities	<u>(1,204,326)</u>	<u>(647,667)</u>
Retained earnings	<u>\$5,392,670</u>	<u>\$4,363,464</u>

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**Auditor of State
Betty Montgomery**

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

Lemon Township
Butler County
3839 Northbrook Lane
Middletown, Ohio 45044

To the Board of Trustees:

We have audited the accompanying financial statements of Lemon Township, Butler County, Ohio (the Township), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated January 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated January 9, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-001 and 2002-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2002-002 to be a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated January 9, 2004.

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

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

Betty Montgomery
Auditor of State

January 9, 2004

**LEMON TOWNSHIP
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Noncompliance/Reportable Condition

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.

This Section also provides for two exceptions to the above requirements:

- A. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.

- B. If the amount involved is less than \$1,000 (\$3,000 effective 4/7/03), the Clerk may authorize payment through a Then and Now Certificate without affirmation of the Board, if such expenditure is otherwise valid.

The Township did not properly certify the availability of funds for purchase commitments for 33% of expenditures tested. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Effort should be made by the Township to properly utilize the encumbrance method of accounting by certifying the availability of funds on properly approved purchase orders. We recommend the Township obtain approved purchase orders, which contain the Clerk's certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING NUMBER 2002-002

Material Weakness

The Township has not accurately reconciled its bank accounts/fund balances. We noted the following deficiencies related to the posting of interest earned:

- \$3,082 of interest from October through December 2000 was not posted until January 29, 2001;
- Administrative fees were netted against the interest earned on the money fund account;
- For 2001, \$60,581 of interest was earned; however, only \$27,830 of interest was posted to the books;
- For 2002, \$20,944 of interest was earned; however, \$51,883 of interest was posted to the books;
- At December 31, 2002, all interest still had not been posted to the books.

Accurate reconciliations are a basic and essential internal control component for sound fiscal management. Township officials rely on accurate reconciliations when making financial decisions and not having them could put the Township's financial health at risk. All revenues and expenditures should be accurately entered into the accounting system. Failure to accurately enter revenue and expenditure transactions can result in misstatements in the financial statements.

We recommend the Township properly reconcile the accounts on a monthly basis. Any variances should be immediately investigated, justified, and adjusted for if necessary. We recommend the Township post all interest transactions timely and accurately. We also recommend that the Board of Trustees review and sign off on the reconciliation indicating approval and ensuring timeliness of reconciliations.

**LEMON TOWNSHIP
BUTLER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-40409-001	ORC 117.28, the Trustees were overpaid	Yes	
2000-40409-002	ORC 5705.41(D), failure to properly certify purchases	No	Reissued as Finding 2002-001
2000-40409-003	ORC 5705.38, failure to approve appropriations and certify them to the County Auditor	Partially	Reissued as management letter citation



**Auditor of State
Betty Montgomery**

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LEMON TOWNSHIP

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 10, 2004**