



Mary Taylor, CPA
Auditor of State

JEFFERSON TOWNSHIP
PREBLE COUNTY

TABLE OF CONTENTS

| TITLE | PAGE |
|---|------|
| Cover Letter | 1 |
| Independent Accountants' Report..... | 3 |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2007 | 5 |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006..... | 6 |
| Notes to the Financial Statements | 7 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 15 |
| Schedule of Findings..... | 17 |

This page intentionally left blank.



Mary Taylor, CPA
Auditor of State

Jefferson Township
Preble County
6954 Cedar Springs Road
New Paris, Ohio 45347

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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 25, 2008

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Jefferson Township
Preble County
6954 Cedar Springs Road
New Paris, Ohio 45347

To the Board of Trustees:

We have audited the accompanying financial statements of Jefferson Township, Preble County, Ohio (the Township), as of and for the years ended December 31, 2007 and 2006. 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, 2007 and 2006 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, 2007 and 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 Jefferson Township, Preble County, as of December 31, 2007 and 2006, 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 November 25, 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

November 25, 2008

**JEFFERSON TOWNSHIP
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | General | Special Revenue | Permanent | Totals (Memorandum Only) |
|---|-----------------|----------------------------|------------------|---|
| Cash Receipts: | | | | |
| Property and Other Local Taxes | \$47,365 | \$55,996 | | \$103,361 |
| Licenses, Permits, and Fees | | 22,606 | | 22,606 |
| Intergovernmental | 23,568 | 122,315 | | 145,883 |
| Earnings on Investments | 12,124 | 3,624 | \$25 | 15,773 |
| Miscellaneous | 149 | 7,575 | | 7,724 |
| Total Cash Receipts | 83,206 | 212,116 | 25 | 295,347 |
| Cash Disbursements: | | | | |
| Current: | | | | |
| General Government | 72,930 | | | 72,930 |
| Public Works | | 133,776 | | 133,776 |
| Health | 7,175 | 29,409 | | 36,584 |
| Capital Outlay | 4,700 | 26,589 | | 31,289 |
| Debt Service: | | | | |
| Redemption of Principal | 500 | 9,500 | | 10,000 |
| Total Cash Disbursements | 85,305 | 199,274 | 0 | 284,579 |
| Total Receipts Over/(Under) Disbursements | (2,099) | 12,842 | 25 | 10,768 |
| Other Financing Receipts: | | | | |
| Other Financing Sources | 600 | | | 600 |
| Total Other Financing Receipts | 600 | 0 | 0 | 600 |
| Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements | (1,499) | 12,842 | 25 | 11,368 |
| Fund Cash Balances, January 1 | 87,764 | 374,994 | 1,543 | 464,301 |
| Fund Cash Balances, December 31 | \$86,265 | \$387,836 | \$1,568 | \$475,669 |
| Reserve for Encumbrances, December 31 | \$371 | \$55,500 | \$0 | \$55,871 |

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

**JEFFERSON TOWNSHIP
PREBLE 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>Capital Projects</u> | <u>Permanent</u> | <u>Totals (Memorandum Only)</u> |
|---|-----------------|----------------------------|-----------------------------|------------------|---|
| Cash Receipts: | | | | | |
| Property and Other Local Taxes | \$45,957 | \$56,232 | | | \$102,189 |
| Licenses, Permits, and Fees | | 23,561 | | | 23,561 |
| Intergovernmental | 22,214 | 119,362 | \$149,900 | | 291,476 |
| Earnings on Investments | 9,681 | 3,102 | | \$25 | 12,808 |
| Miscellaneous | 637 | 13,875 | | | 14,512 |
| Total Cash Receipts | 78,489 | 216,132 | 149,900 | 25 | 444,546 |
| Cash Disbursements: | | | | | |
| Current: | | | | | |
| General Government | 70,689 | | | | 70,689 |
| Public Works | 11,482 | 187,617 | 249,900 | | 448,999 |
| Health | | 25,236 | | | 25,236 |
| Capital Outlay | 221 | | | | 221 |
| Debt Service: | | | | | |
| Redemption of Principal | | 10,000 | | | 10,000 |
| Total Cash Disbursements | 82,392 | 222,853 | 249,900 | 0 | 555,145 |
| Total Receipts Over/(Under) Disbursements | (3,903) | (6,721) | (100,000) | 25 | (110,599) |
| Other Financing Receipts: | | | | | |
| Issue II Loan Proceeds | | | 100,000 | | 100,000 |
| Total Other Financing Receipts | 0 | 0 | 100,000 | 0 | 100,000 |
| Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements | (3,903) | (6,721) | 0 | 25 | (10,599) |
| Fund Cash Balances, January 1 | 91,667 | 381,715 | 0 | 1,518 | 474,900 |
| Fund Cash Balances, December 31 | \$87,764 | \$374,994 | \$0 | \$1,543 | \$464,301 |

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

**JEFFERSON TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

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 Jefferson Township, Preble 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, bridge, and cemetery maintenance.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool, which is available to Ohio townships. OTARMA provides property and casualty coverage for its members. Note 7 to the financial statements provides 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 and Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Township values certificates of deposit at cost. Investments in STAR Ohio are recorded at share values the STAR Ohio reports.

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 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:

**JEFFERSON TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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

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

Cemetery Fund – This fund receives proceeds from the sale of cemetery lots and opening and closing charges used for maintaining the Township’s cemeteries.

3. Capital Project Fund

This fund accounts 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 Fund:

Issue II Fund - The Township received a grant and loan from the State of Ohio for road improvements, widening, and resurfacing.

4. Permanent Fund

This fund is used to account for resources restricted by legally binding trust agreements. The Township had the following Permanent Fund:

Cemetery Estate Fund – This fund is used to account for a cemetery bequest given to the Township. The bequest is maintained in a certificate of deposit.

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 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 normally canceled, and reappropriated in the subsequent year. However, the Township chose not to cancel one encumbrance for a large capital outlay expenditure and carried it over to the subsequent year.

**JEFFERSON TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

A summary of 2007 and 2006 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. Equity in Pooled Cash and Investments

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

| | 2006 | 2007 |
|--------------------------------|-------------|-------------|
| Demand deposits | \$218,895 | \$217,665 |
| Certificates of deposit | 1,439 | 1,439 |
| Total deposits | 220,334 | 219,104 |
| STAR Ohio | 243,967 | 256,565 |
| Total investments | 243,967 | 256,565 |
| Total deposits and investments | \$464,301 | \$475,669 |

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's letter of credit.

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

Contrary to the Ohio Revised Code, the Township's deposits were not properly collateralized.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

| 2007 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$79,000 | \$83,806 | \$4,806 |
| Special Revenue | 208,000 | 212,116 | 4,116 |
| Permanent | 25 | 25 | 0 |
| Total | \$287,025 | \$295,947 | \$8,922 |

**JEFFERSON TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. Budgetary Activity (Continued)

2007 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|-----------------|----------------------------|---------------------------|------------------|
| General | \$178,096 | \$85,676 | \$92,420 |
| Special Revenue | 572,455 | 254,774 | 317,681 |
| Permanent | 1,568 | 0 | 1,568 |
| Total | <u>\$752,119</u> | <u>\$340,450</u> | <u>\$411,669</u> |

2006 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|------------------|----------------------|--------------------|------------------|
| General | \$60,000 | \$78,489 | \$18,489 |
| Special Revenue | 140,000 | 216,132 | 76,132 |
| Capital Projects | 0 | 249,900 | 249,900 |
| Permanent | 25 | 25 | 0 |
| Total | <u>\$200,025</u> | <u>\$544,546</u> | <u>\$344,521</u> |

2006 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|------------------|----------------------------|---------------------------|------------------|
| General | \$166,667 | \$82,392 | \$84,275 |
| Special Revenue | 506,715 | 222,853 | 283,862 |
| Capital Projects | 0 | 249,900 | (249,900) |
| Permanent | 1,543 | 0 | 1,543 |
| Total | <u>\$674,925</u> | <u>\$555,145</u> | <u>\$119,780</u> |

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Issue II Fund by \$249,900 for the year ended December 31, 2006.

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.

**JEFFERSON TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

4. Property Tax (Continued)

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

5. Debt

Debt outstanding at December 31, 2007 was as follows:

| | Principal | Interest Rate |
|---------------|-----------|---------------|
| Issue II Loan | \$80,000 | 0% |

The Township received a 5 year, 0% interest rate, Issue II loan to finance Township road improvements, widening, and resurfacing on July 1, 2005. The Township signed a promissory note to Ohio Public Works for this loan. This promissory note requires semi-annual payments of \$10,000 on January 1st and July 1st for a period of five years with the first payment being made on January 1, 2007. The promissory note is secured by local government funding disbursements handled by the County (i.e. local government fund for the entity would be withheld and forward to Ohio Public Works).

Amortization of the above debt is scheduled as follows:

| Year ending December 31: | Issue II Loan |
|--------------------------|---------------|
| 2008 | \$20,000 |
| 2009 | 20,000 |
| 2010 | 20,000 |
| 2011 | 20,000 |
| Total | \$80,000 |

6. Retirement Systems

The Township's 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 includes postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5% and 9%, respectively, of their gross salaries and the Township contributed an amount equaling 13.85% and 13.7%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

7. Risk Management

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

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

**JEFFERSON TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

7. Risk Management (Continued)

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

Casualty Coverage

For an occurrence prior to January 1, 2006, OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. 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 PEP'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 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

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. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 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 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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.

**JEFFERSON TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

7. 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, 2007 and 2006.

| | <u>2007</u> | <u>2006</u> |
|-------------|---------------------|---------------------|
| Assets | \$43,210,703 | \$42,042,275 |
| Liabilities | <u>(13,357,837)</u> | <u>(12,120,661)</u> |
| Net Assets | <u>\$29,852,866</u> | <u>\$29,921,614</u> |

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, 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 \$6,481. 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> | |
|---------------------------------------|---------|
| 2005 | \$8,683 |
| 2006 | \$6,460 |
| 2007 | \$6,895 |

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.

**JEFFERSON TOWNSHIP
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

8. Compliance

Contrary to Ohio Revised Code, the Township allocated the Trustees' salaries to a fund other than the General Fund without documentation of services rendered to those funds.

Contrary to Ohio Revised Code, the Township did not establish a special fund for Ohio Public Works Commission.

The Township did not maintain records and prepare financial statements in accordance with Ohio Administrative Code requirements.



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*

Jefferson Township
Preble County
6954 Cedar Springs Road
New Paris, Ohio 45347

To the Board of Trustees:

We have audited the financial statements of Jefferson Township, Preble County, Ohio (the Township), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated November 25, 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 Jefferson 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 certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-003, 2007-004, 2007-006 to 2007-007.

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. However, of the significant deficiencies described above, we believe all the significant deficiencies noted above are also material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated November 25, 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 or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-007.

We also noted certain noncompliance or other matters that we reported to the Township's management in a separate letter dated November 25, 2008.

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



Mary Taylor, CPA
Auditor of State

November 25, 2008

**JEFFERSON TOWNSHIP
PREBLE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-001

Finding for Recovery Repaid Under Audit

On May 10, 2007, the Township paid township employee, Ralph Brewster \$424.98 for 54 hours of work. However, a review of Mr. Brewster's timesheet shows he only worked 30 hours of work. Accordingly, Mr. Brewster was overpaid by 24 hours for a total overpayment of \$188.88. This amount was repaid during the course of the audit.

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Ralph Brewster, Township employee, in the amount of \$188.88 and in favor of Jefferson Township's Cemetery Fund.

On July 22, 2008, \$188.88 was repaid to the Township's Cemetery Fund.

FINDING NUMBER 2007-002

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(B), states that no subdivision or taxing unit shall make any expenditures of money unless it has been appropriated.

In 2006, expenditures of \$249,900 exceeded appropriations of \$0 in the Issue II Fund by \$249,900 (due to audit adjustments). Failure to limit expenditures to appropriations may result in overspending and negative fund balances. We recommend that the Township take steps to ensure appropriations are monitored properly and recorded in the ledgers. No expenditures should be made unless there are sufficient appropriations to cover the expenditures.

FINDING NUMBER 2007-003

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 505.24(C), sets forth the method by which township trustees' compensation should be allocated. This section is amplified by Ohio Attorney General (OAG) Opinion 2004-036. This Section requires that compensation of a township trustee must be paid from the Township General Fund or from such other restricted township funds, in such proportions based on the amount of time spent on matters related to the services rendered. In addition, OAG Opinion 2004-036 indicates trustees should establish administrative procedures to document the proportionate amount of trustees' salaries chargeable to other township funds based on the portion of time spent on matters related to the services rendered. The "administrative procedures" can be timesheets or a similar method of record keeping, as long as the trustee's document all time spent on township business and the type of service(s) performed, in a manner similar to trustee's paid per diem compensation. If trustees do not document their time, then no part of salaries may be paid from these other funds. The requirements of Ohio Rev. Code Section 505.24(C) were noted in the Jefferson Township management letter for the audit conducted for years ending December 31, 2005 and 2004.

FINDING NUMBER 2007-003
(Continued)

The Township Trustees were paid two-thirds of their salaries from the Gasoline Fund in 2007, totaling \$24,232, and all of one Trustee's salary totaling \$9,792 in 2006 from the Gasoline Fund. However, the Trustees' documented time does not adequately support paying two-thirds or 100% of their salaries from the Gasoline Fund. We recommend the trustees document adequate time spent on various tasks in order to charge a fund other than the general fund. Trustees' salaries are to be paid from the General Fund unless administrative procedures are established to document the proportionate amount of Trustees' salaries chargeable to other Township funds. Audit adjustments were made to the Township's ledgers and the accompanying financial statements to move the expenditures from the Gasoline Fund back to the General Fund.

Furthermore, per the minutes in 2007, the Board approved paying two-thirds of the Trustees salaries paid out of the Road and Bridge Fund. However, the fiscal officer paid the salaries out of the Gasoline Fund. The Township posted \$24,232 to an incorrect fund. Failure to accurately post transactions as approved by the Board may result in inaccurate financial statements or negative fund balances. We recommend the fiscal officer post transactions to the proper fund as authorized and approved by the Board of Trustees.

We recommend the Township adopt formal administrative procedures regarding documenting the time spent by Township Trustee's on various duties. Once these administrative procedures are established trustee salaries and related benefits should be charged to the applicable funds in accordance with the timesheets or other similar method of record keeping.

FINDING NUMBER 2007-004

Noncompliance Citation/Material Weakness

Ohio Rev. Code, Section 5705.09(F), requires the Township to establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Upon establishing a fund, estimated receipts should be certified to the County Auditor as available for expenditure and anticipated expenditures should be included in the Village's appropriations. As further discussed in Auditor of State Bulletin 2000-008, the Fiscal Officer shall record the appropriations in accordance with the terms and conditions of the on-behalf grant, loan or project agreement. In addition, prior to the Village recording the appropriations, Ohio Rev. Code Section 5705.40 requires the legislative authority to pass a resolution amending its appropriation measure.

The Fiscal Officer inadvertently failed to record the Ohio Public Works Commission (OPWC) monies disbursed on behalf of the Township for both the grant and loan received during the audit period. In addition, the Township did not include this grant and loan money in the appropriations approved by the Board of Trustees. However, the Township made adjustments of \$249,900 to the audited financial statements for the receipts and disbursements associated with this grant and loan.

Failure to record these items can result in misleading financial statements. We recommend that the Township follow the accounting treatment as prescribed in Auditor of State Bulletin 2000-008 for on-behalf grants.

FINDING NUMBER 2007-005

Noncompliance Citation

Ohio Rev. Code, Section 135.18, states that the treasurer, before making the initial deposit in a public depository pursuant to an award made under sections 135.01 to 135.21 of the Revised Code, except as provided in section 135.144 of the Revised Code, shall require the institution designated as a public depository to pledge to and deposit with the treasurer, as security for the repayment of all public moneys to be deposited in the public depository during the period of designation pursuant to the award, eligible securities of aggregate market value equal to the excess of the amount of public moneys to be at the time so deposited, over and above the portion or amount of such moneys as is at that time insured by the federal deposit insurance corporation or by any other agency or instrumentality of the federal government. In the case of any deposit other than the initial deposit made during the period of designation, the amount of the aggregate market value of securities required to be pledged and deposited shall be equal to the difference between the amount of public moneys on deposit in such public depository plus the amount to be so deposited, minus the portion or amount of the aggregate as is at the time insured as provided in this section. The treasurer may require additional eligible securities to be deposited to provide for any depreciation which may occur in the market value of any of the securities so deposited. Such security may consist of federal deposit insurance, surety company bonds, pledged securities, or lines of credit.

The Township's deposits were not adequately covered by collateral at all times during the audit period. Deposits in May, June, and July 2006 exceeded FDIC coverage of \$100,000 and the line of credit of \$200,000 by \$13,013, \$13,529, and \$14,001 respectively. Failure to secure adequate collateral could result in a loss of assets by the Township. We recommend the Township secure adequate collateral throughout the year to cover its deposits.

FINDING NUMBER 2007-006

Noncompliance Citation/Material Weakness

Ohio Admin. Code, Section 117-2-02(A), that all public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets and liabilities, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

The Township lacked management oversight in the proper recording of intergovernmental revenue, debt transactions, and capital outlay. The Township incorrectly posted:

- Homestead/rollback, utility reimbursements, and personal property tax reimbursements in the General Fund to the Taxes line item instead of the Intergovernmental line item totaling \$2,720 in 2007 and \$1,332 in 2006.
- Utility reimbursements in the General Fund to the Miscellaneous line item instead of the intergovernmental line item for \$99 in 2007 and \$148 in 2006.
- Homestead/rollback, utility reimbursements, and personal property tax reimbursements in the Road and Bridge Fund to the Taxes line item instead of the Intergovernmental line item totaling \$8,292 in 2007 and \$4,069 in 2007.
- County levied MVL taxes in the Permissive MVL Tax Fund to the Taxes line item instead of the Intergovernmental line item totaling \$12,333 in 2007 and \$11,810 in 2006.
- Utility reimbursements in the Road and Bridge Fund to the Charges for Services line item instead of the Intergovernmental line item for \$152 in 2006.

**FINDING NUMBER 2007-006
(Continued)**

- Capital outlay expenditure in the Road and Bridge Fund posted to the Public Works line item for \$26,589 in 2007.
- Repayment of principal not posted to Debt Service line item, \$10,000 in the General Fund, Motor Vehicle License Tax Fund, Gasoline Tax Fund, Road and Bridge Fund, and Permissive MVL Tax Fund in 2007 and in the Gasoline Tax Fund, Road and Bridge Fund, and Permissive MVL Tax Fund in 2006.
- Permissive MVL Tax Fund intergovernmental receipt to the General Fund Taxes line item for \$915 in 2006.
- Interest receipts in 2007 totaling \$834, \$49, \$126, and \$49 in the General Fund, Motor Vehicle Fund, Gas Fund, and Permissive Tax funds respectively were posted twice. Interest receipts in 2006 totaling \$624, \$37, \$95, and \$37 in the General Fund, Motor Vehicle Fund, Gas Fund, and Permissive Tax funds respectively were posted twice.

The Township made audit adjustments to the accompanying financial statements for the above items.

Also, the Township did not accurately reconcile its bank accounts to fund balances for the two year audit period. At December 31, 2006, the book balance was overstated by \$792 and at December 31, 2007, the book balance was overstated by \$1,850, which includes the error from 2006. These differences are a result of double posting a month of interest each year. Accurate reconciliations are a basic and essential internal control component for sound fiscal management. Township officials rely on accurate reconciliations to make sound financial decisions.

The lack of proper management oversight could result in material misstatements relating to financial data. For guidance, the Township should utilize the Ohio Township Handbook. To improve record keeping and accountability of financial activity, we recommend the following:

- All debt activity and capital outlay expenditures reported properly on the annual financial reports.
- All applicable taxes and intergovernmental receipts posted at gross, not net. All receipts posted to the correct fund and line items.
- Reconcile accurately on a monthly basis agreeing the checking account balance plus each investment account balance to the Township's fund balances.

FINDING NUMBER 2007-007

Material Weakness/Material Noncompliance

Ohio Admin. Code, Section 117-2-01(D), states, in part, that when designing the public office's system of internal control and the specific control activities, management should ensure that all transactions are properly authorized in accordance with management's policies and ensure adequate security of assets and records.

The fiscal officer did not deposit cemetery revenue on a timely basis. Receipts were held anywhere from two days to thirty-one days before being deposited. Failure to deposit receipts on a timely basis may result in the misappropriation of revenue. We recommend the fiscal officer deposit receipts on a timely basis of three business days or less and that the Township develop a written policy on the timely deposit of revenue.

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



Mary Taylor, CPA
Auditor of State

JEFFERSON TOWNSHIP

PREBLE 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
DECEMBER 18, 2008**