



Mary Taylor, CPA
Auditor of State

MADISON TOWNSHIP
LAKE 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 - Governmental Fund Types - For the Year Ended December 31, 2007	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - 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
Schedule of Prior Audit Findings	21

This page intentionally left blank.



Mary Taylor, CPA
Auditor of State

Madison Township
Lake County
2065 Hubbard Road
Madison, Ohio 44057

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

December 16, 2008

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Madison Township
Lake County
2065 Hubbard Road
Madison, Ohio 44057

To the Board of Trustees:

We have audited the accompanying financial statements of Madison Township, Lake County, Ohio, (the Township) as of and for the years ended December 31, 2007 and December 31, 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.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

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 Madison Township, Lake County, Ohio, as of December 31, 2007 and December 31, 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 December 16, 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

December 16, 2008

**MADISON TOWNSHIP
LAKE COUNTY**

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

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property and Other Local Taxes	\$331,514	\$2,207,357	\$0	\$0	\$2,538,871
Licenses, Permits, and Fees	40,905	925	0	0	41,830
Fines and Forfeitures	25,699	0	0	0	25,699
Intergovernmental	553,649	927,221	0	0	1,480,870
Special Assessments	0	56,166	0	0	56,166
Earnings on Investments	79,648	1,930	0	0	81,578
Miscellaneous	205,152	49,218	0	0	254,370
Total Cash Receipts	<u>1,236,567</u>	<u>3,242,817</u>	<u>0</u>	<u>0</u>	<u>4,479,384</u>
Cash Disbursements:					
Current:					
General Government	818,248	0	0	0	818,248
Public Safety	68,160	1,658,441	0	0	1,726,601
Public Works	14,265	1,253,728	0	0	1,267,993
Health	13,351	28,879	0	0	42,230
Conservation - Recreation	224,478	0	0	0	224,478
Other	0	42,280	0	0	42,280
Capital Outlay	5,353	469,655	0	5,246	480,254
Debt Service:					
Redemption of Principal	0	40,000	0	30,000	70,000
Interest and Other Fiscal Charges	0	0	7,778	0	7,778
Total Cash Disbursements	<u>1,143,855</u>	<u>3,492,983</u>	<u>7,778</u>	<u>35,246</u>	<u>4,679,862</u>
Total Receipts Over/(Under) Disbursements	<u>92,712</u>	<u>(250,166)</u>	<u>(7,778)</u>	<u>(35,246)</u>	<u>(200,478)</u>
Other Financing Receipts / (Disbursements):					
Sale of Bonds	22,959	551,029	0	0	573,988
Transfers-In	0	0	7,778	30,000	37,778
Transfers-Out	(37,778)	0	0	0	(37,778)
Other Financing Sources	297	0	0	0	297
Other Financing Uses	(1,866)	0	0	0	(1,866)
Total Other Financing Receipts / (Disbursements)	<u>(16,388)</u>	<u>551,029</u>	<u>7,778</u>	<u>30,000</u>	<u>572,419</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	76,324	300,863	0	(5,246)	371,941
Fund Cash Balances, January 1, 2007	622,216	1,351,119	0	26,489	1,999,824
Fund Cash Balances, December 31, 2007	<u><u>\$698,540</u></u>	<u><u>\$1,651,982</u></u>	<u><u>\$0</u></u>	<u><u>\$21,243</u></u>	<u><u>\$2,371,765</u></u>
Reserve for Encumbrances, December 31, 2007	<u>\$200,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$200,000</u>

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

**MADISON TOWNSHIP
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Other Local Taxes	\$315,747	\$2,333,885	\$0	\$2,649,632
Licenses, Permits, and Fees	48,256	1,236	0	49,492
Fines and Forfeitures	16,388	0	0	16,388
Intergovernmental	563,505	560,085	72,936	1,196,526
Special Assessments	0	56,730	0	56,730
Earnings on Investments	89,924	8,198	0	98,122
Miscellaneous	173,406	31,291	0	204,697
	<u>1,207,226</u>	<u>2,991,425</u>	<u>72,936</u>	<u>4,271,587</u>
Cash Disbursements:				
Current:				
General Government	795,907	0	0	795,907
Public Safety	48,606	1,746,738	0	1,795,344
Public Works	16,745	1,063,690	0	1,080,435
Health	22,396	2,260	0	24,656
Conservation - Recreation	187,824	0	0	187,824
Other	0	3,351	0	3,351
Capital Outlay	0	25,406	30,460	55,866
Debt Service:				
Redemption of Principal	0	20,000	0	20,000
	<u>1,071,478</u>	<u>2,861,445</u>	<u>30,460</u>	<u>3,963,383</u>
Total Cash Disbursements	<u>1,071,478</u>	<u>2,861,445</u>	<u>30,460</u>	<u>3,963,383</u>
Total Receipts Over/(Under) Disbursements	<u>135,748</u>	<u>129,980</u>	<u>42,476</u>	<u>308,204</u>
Other Financing Receipts / (Disbursements):				
Transfers-In	1,386	17,575	0	18,961
Transfers-Out	0	(846)	(18,115)	(18,961)
Other Financing Sources	2,212	0	0	2,212
Other Financing Uses	(318)	0	0	(318)
	<u>3,280</u>	<u>16,729</u>	<u>(18,115)</u>	<u>1,894</u>
Total Other Financing Receipts / (Disbursements)	<u>3,280</u>	<u>16,729</u>	<u>(18,115)</u>	<u>1,894</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	139,028	146,709	24,361	310,098
Fund Cash Balances, January 1, 2006	483,188	1,204,410	2,128	1,689,726
Fund Cash Balances, December 31, 2006	<u>\$622,216</u>	<u>\$1,351,119</u>	<u>\$26,489</u>	<u>\$1,999,824</u>
Reserve for Encumbrances, December 31, 2006	<u>\$230,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$230,000</u>

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

**MADISON TOWNSHIP
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND DECEMBER 31, 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 the Madison Township, Lake County, Ohio, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides general government services, including road and bridge maintenance, cemetery maintenance, parks, senior center and police services. Fire protection and emergency medical services are provided by the Madison Joint Fire District.

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. Mutual funds, including STAR Ohio are recorded at share values the mutual funds report.

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:

**MADISON TOWNSHIP
LAKE COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

2. Special Revenue Funds (Continued)

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

Police District Fund - This fund receives property tax money to provide police protection to Township residents.

3. Debt Service Fund

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

Debt Service Fund – This fund is used for the payment of principal and interest on the Ohio Capital Asset Financing Program.

4. 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:

Permanent Improvement Fund – This fund received general fund transfer for a waterline project.

Miscellaneous Capital Projects Fund – This fund receives FEMA money for flood and repair projects.

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 and object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. 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.

**MADISON TOWNSHIP
LAKE COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

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.

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.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

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:

	2007	2006
Deposits:		
Demand deposits	\$101,163	\$135,924
Certificates of deposit	1,585,208	380,967
Total deposits	1,686,371	516,891
Investments:		
STAR Ohio	685,394	1,482,933
Total investments	685,394	1,482,933
Total deposits and investments	\$2,371,765	\$1,999,824

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

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

**MADISON TOWNSHIP
LAKE COUNTY**

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

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	\$1,161,861	\$1,259,823	\$97,962
Special Revenue	3,641,578	3,793,846	152,268
Debt Service	0	7,778	7,778
Capital Projects	16,030	30,000	13,970
Total	\$4,819,469	\$5,091,447	\$271,978

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,508,592	\$1,383,499	\$125,093
Special Revenue	4,342,955	3,492,983	849,972
Debt Service	0	7,778	(7,778)
Capital Projects	5,020	35,246	(30,226)
Total	\$5,856,567	\$4,919,506	\$937,061

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,428,618	\$1,210,824	(\$217,794)
Special Revenue	3,101,431	3,009,000	(92,431)
Capital Projects	2,200	72,936	70,736
Total	\$4,532,249	\$4,292,760	(\$239,489)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,288,259	\$1,301,796	(\$13,537)
Special Revenue	4,014,651	2,862,291	1,152,360
Capital Projects	4,328	48,575	(44,247)
Total	\$5,307,238	\$4,212,662	\$1,094,576

**MADISON TOWNSHIP
LAKE COUNTY**

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

3. Budgetary Activity (Continued)

Contrary to Ohio Revised Code Section 5705.41(B), budgetary expenditures exceeded appropriation authority in the Debt Service, Permanent Improvement and Miscellaneous Capital Project funds in the amount of \$7,778, \$25,670 and \$4,566, respectively, for the year ended December 31, 2007 and budgetary expenditures exceeded appropriations authority in the General, Miscellaneous Special Revenue and Miscellaneous Capital Project funds in the amount of \$13,537, \$5,411 and \$47,254, respectively, 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.

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:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works	\$20,000	0%
Lake County Commissioners	40,000	0%
Ohio Capital Asset Financing Program	<u>575,000</u>	4.50%
Total	<u>\$635,000</u>	

The Township issued an Ohio Public Works Loan in 2001 which was for Davista Area Drain Reconstruction. The term of the loan was for ten years. This loan will be paid in 2008 from the Permissive Motor Vehicle License Tax fund.

The Lake County Commissioners Loan of \$100,000 was advanced to the Township in 2004 for the River Road Improvement Project. The Township can draw from the Lake County Commissioners in the amount of \$300,000 for this project. This loan will be paid in 2009 from the General fund.

The Ohio Capital Asset Financing Program issued in 2007 for the purchase of road construction and service vehicles. The term of the loan was for seven years. Ohio Capital Asset Financing Program will be paid from the General, Road and Bridge and Cemetery funds.

**MADISON TOWNSHIP
LAKE COUNTY**

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

5. Debt (Continued)

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

Year ending December 31:	OPWA Loans	Lake County Commissioners Loan	Ohio Capital Asset Financing Program	Totals
2008	\$20,000	\$30,000	\$95,000	\$145,000
2009		10,000	96,850	106,850
2010			98,475	98,475
2011			94,875	94,875
2012			96,475	96,475
2013 – 2014			196,900	196,900
Total	\$20,000	\$40,000	\$678,575	\$738,575

6. Retirement Systems

All employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits. 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. OPERS police members contributed 10.1% for both years, of their gross salaries and the Township contributed an amount equaling 17.17% and 16.93%, respectively. 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.

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

**MADISON TOWNSHIP
LAKE COUNTY**

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

7. Risk Management (Continued)

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.

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 \$55,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

**MADISON TOWNSHIP
LAKE COUNTY**

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

7. Risk Management (Continued)

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.

Contributions to OTARMA

2005	\$61,368
2006	\$64,609
2007	\$58,644

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.



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*

Madison Township
Lake County
2065 Hubbard Road
Madison, Ohio 44057

To the Board of Trustees:

We have audited the financial statements of the Madison Township, Lake County, Ohio, (the Township) as of and for the years ended December 31, 2007 and December 31, 2006, and have issued our report thereon dated December 16, 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 certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-002 through 2007-004.

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 finding numbers 2007-002 through 2007-004 are also material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated December 16, 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 an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

We did note certain noncompliance or other matters that we reported to the Township's management in a separate letter dated December 16, 2008.

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

Madison Township
Lake County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Mary Taylor, CPA
Auditor of State

December 16, 2008

**MADISON TOWNSHIP
LAKE 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

Noncompliance Citation

Expenditures Plus Encumbrances In Excess of Appropriations

Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure plus encumbrances unless it has been properly appropriated. Budgetary expenditures as enacted by the Township may not exceed appropriations at the legal level of controls for all funds. As of year end the following funds had expenditures plus encumbrances in excess of appropriations:

<u>Fund/Program</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
2007			
Debt Service	\$0	\$7,778	\$7,778
Permanent Improvement	4,330	30,000	25,670
Miscellaneous Capital Project	680	5,246	4,566
2006			
General Fund	\$1,288,259	\$1,301,796	\$13,537
Miscellaneous Special Revenue	0	5,411	5,411
Miscellaneous Capital Project	0	47,254	47,254

The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request the Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Official Response:

The Township will track initial payments and grants to update the budget in the future.

**MADISON TOWNSHIP
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDING NUMBER 2007-002

Material Weakness

Supporting Documentation

In Fiscal Year 2006, revenue items tested did not contain support documentation as follows: seven of the 64 items tested (\$8,242 out of \$48,256 or 17.1% tested) for License, Permits & Fees revenue; and 32 of the 153 items tested for Miscellaneous revenue \$17,451 out of \$170,687 or 10.2% tested).

Also in Fiscal Year 2006, deposit tickets were not maintained as follows: ten of the 64 items tested (\$8,158 out of \$48,256 or 16.9% tested) for License, Permits & Fees revenue and 78 of the 153 items tested for Miscellaneous revenue (\$106,541 out of \$170,687 or 62.4% tested).

In Fiscal Year 2007, revenue items tested did not contain support documentation as follows: one of the 125 items tested (\$23,740 out of \$199,774 or 11.9%) for Miscellaneous revenue did not have a receipt or support documentation.

Also, in Fiscal Year 2007, two of the 125 items tested (\$2,222 out of \$199,774 or 1%) for Miscellaneous revenue could not be traced to the bank statement. The February bank statement was not maintained by the Township and the Fiscal Officer could not retrieve the statement from the online banking system.

This could lead to revenue not being deposited properly.

We recommend the Township maintain proper supporting documentation which includes receipts, individual deposit slips and monthly bank statements.

Official Response:

Since the Township had a change in Fiscal Officers in 2006 and the records for 2006 were not maintained in an organized manner, the Auditors had access to all the available records for 2006.

**MADISON TOWNSHIP
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDING NUMBER 2007-003

Material Weakness

Cash Reconciliation

Monthly adjustments to the Township's bank reconciliation should be documented by the Fiscal Officer to ensure the Township's books reconcile to the bank.

The Township bank reconciliation for January of 2007 contained an adjustment to the Uniform Accounting Network (UAN) to correct deposits to the bank that was not receipted and posted to UAN. The receipts deposited to the bank could not be tracked to specific receipts because the 2006 deposits tickets did not contain detailed information of receipts. This weakness could cause the Township's ledgers and financial position not to be accurate.

For the remainder of 2007, the adjustments for the bank reconciliation were detailed and done in a timely manner.

We recommend the Township make adjustments to the UAN system on a timely manner to verify the cash balance and ensure cash activity has been properly reported in the Township's ledgers. We also recommend the Township develop a policy regarding bank reconciliations, which includes a review process, and maintain all documentation that supports the monthly reconciliation.

Official Response:

The adjustment was made for deposits not receipted in a timely manner. Controls have been instituted to correct this situation.

FINDING NUMBER 2007-004

Material Weakness

Proper Posting of Receipts

During our testing of property taxes, intergovernmental revenue and miscellaneous revenue, we noted several receipts which were not posted to the proper fund for the audit period. This increases the possibility that receipts could not be posted and misstatements could occur.

We recommend the Township properly post receipts to the proper fund.

Official Response:

This has been corrected for 2008.

MADISON TOWNSHIP
LAKE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC 5705.41(D)(1) Proper Encumbrances of Funds	Corrected	



Mary Taylor, CPA
Auditor of State

MADISON TOWNSHIP

LAKE 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 31, 2008**