



Mary Taylor, CPA
Auditor of State

MASON TOWNSHIP
LAWRENCE COUNTY

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Mary Taylor, CPA
Auditor of State

Mason Township
Lawrence County
446 Township Road 209
Willow Wood, Ohio 45696

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

August 28, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Mason Township
Lawrence County
446 Township Road 209
Willow Wood, Ohio 45696

To the Board of Trustees:

We have audited the accompanying financial statements of Mason Township, Lawrence 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.

Except as discussed in paragraphs 6, 7, and 8, 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 fifth 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.

During 2007, the Township improperly paid salaries and fringe benefits for the Board of Trustees from the Gasoline Tax Fund in the amount of \$24,669.59 that should have been paid from the General Fund. Also, we noted the Township improperly reimbursed the Board of Trustees and the Fiscal Officer for insurance from the Gasoline Tax Fund in the amount of \$4,527.84 that should have been paid from the General Fund. Due to the impact these adjustments would have on the General Fund, the Township has declined to make these adjustments this audit period.

During 2006, the Township improperly paid salaries and fringe benefits for the Board of Trustees from the Gasoline Tax Fund in the amount of \$24,222.95 that should have been paid from the General Fund. Also, we noted the Township improperly reimbursed the Board of Trustees and the Fiscal Officer for insurance from the Gasoline Tax Fund in the amount of \$3,927.08 that should have been paid from the General Fund. Due to the impact these adjustments would have on the General Fund, the Township has declined to make these adjustments this audit period.

Had the posting errors noted in the preceding two paragraphs been properly posted to the financial statements and the accounting system, the General Fund cash fund balance would have been decreased by \$57,347.46, and the Gasoline Tax Fund cash fund balance would have increased by \$57,347.46.

Also, in our opinion, except for the effects of such adjustments, if any, were made to the financial statements due to the errors described in the preceding three paragraphs, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Mason Township, Lawrence County, Ohio, 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 August 28, 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

August 28, 2008

**MASON TOWNSHIP
LAWRENCE 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**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$7,399	\$3,391	\$10,790
Intergovernmental	15,944	107,615	123,559
Earnings on Investments	12	30	42
Miscellaneous	510	620	1,130
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	23,865	111,656	135,521
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
General Government	21,960	993	22,953
Public Safety	1,400	1,400	2,800
Public Works		83,230	83,230
Capital Outlay		6,725	6,725
Debt Service:			
Redemption of Principal		9,958	9,958
Interest Charges		2,903	2,903
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	23,360	105,209	128,569
	<hr/>	<hr/>	<hr/>
Total Receipts Over/(Under) Disbursements	505	6,447	6,952
	<hr/>	<hr/>	<hr/>
Other Financing Receipts / (Disbursements):			
Other Financing Sources	464		464
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	464	0	464
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	969	6,447	7,416
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	5,478	20,495	25,973
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$6,447</u>	<u>\$26,942</u>	<u>\$33,389</u>

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

**MASON TOWNSHIP
LAWRENCE 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>	
Cash Receipts:			
Property and Other Local Taxes	\$7,532	\$3,275	\$10,807
Intergovernmental	16,022	100,049	116,071
Earnings on Investments	25	48	73
Miscellaneous	300	2,320	2,620
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	23,879	105,692	129,571
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
General Government	22,192	1,279	23,471
Public Safety	2,400		2,400
Public Works		101,622	101,622
Debt Service:			
Redemption of Principal		3,000	3,000
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	24,592	105,901	130,493
	<hr/>	<hr/>	<hr/>
Total Receipts Over/(Under) Disbursements	(713)	(209)	(922)
	<hr/>	<hr/>	<hr/>
Other Financing Receipts / (Disbursements):			
Other Financing Sources	409		409
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	409	0	409
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	(304)	(209)	(513)
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	5,782	20,704	26,486
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$5,478</u>	<u>\$20,495</u>	<u>\$25,973</u>

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

**MASON TOWNSHIP
LAWRENCE 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 the Mason Township, Lawrence County (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance and cemetery maintenance. The Township contracts with the Mason Township Volunteer Fire Department to provide fire protection services.

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. 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 Fund:

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

D. Budgetary Process

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

**MASON TOWNSHIP
LAWRENCE COUNTY**

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

1. Summary of Significant Accounting Policies (continued)

D. Budgetary Process (continued)

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 canceled, and reappropriated in the subsequent year.

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

E. 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.

F. Cash

The Township had one primary checking account during the audit period.

2. Equity in Pooled Cash

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

	<u>2007</u>	<u>2006</u>
Demand deposits	<u>\$33,389</u>	<u>\$25,973</u>

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation.

3. Budgetary Activity

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

**MASON TOWNSHIP
LAWRENCE COUNTY**

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

3. Budgetary Activity (continued)

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$24,329	\$24,329	\$0
Special Revenue	111,656	111,656	0
Total	\$135,985	\$135,985	\$0

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$29,766	\$23,360	\$6,406
Special Revenue	126,187	105,209	20,978
Total	\$155,953	\$128,569	\$27,384

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$23,350	\$24,288	\$938
Special Revenue	94,527	105,692	11,165
Total	\$117,877	\$129,980	\$12,103

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$29,132	\$24,592	\$4,540
Special Revenue	114,497	105,901	8,596
Total	\$143,629	\$130,493	\$13,136

Contrary to Ohio law, appropriations exceed estimated resources in the General and Special Revenue Funds by \$5,782 and \$19,969, 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.

**MASON TOWNSHIP
LAWRENCE COUNTY**

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

4. Property Tax (continued)

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. Leases

Leases outstanding at December 31, 2007 were as follows:

	Principal	Interest Rate
Tractor Lease	\$45,342	5.25%
Total	\$45,342	

The Township entered into a lease/purchase agreement with Kansas State Bank on April 14, 2006 for the lease of a tractor. The Township is scheduled to make annual payments in the amount of \$12,861.30, which includes interest, through April 14, 2011 at which time the Township will own the tractor.

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

Year ending December 31:	Principal	Interest	Total
2008	\$10,481	\$2,380	\$12,861
2009	11,031	1,830	12,861
2010	11,610	1,251	12,861
2011	12,220	641	12,861
Total	\$45,342	\$6,102	\$51,444

6. Retirement System

The Township's elected officials and employees belong to the Public Employees Retirement System (OPERS) of Ohio. OPERS is a cost-sharing, multiple-employer plan. This 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 2007 and 2006, members of OPERS contributed 9.5% and 9%, respectively, of their gross salaries. The Township contributed an amount equal to 13.85% and 13.7%, respectively, of participants' gross salaries. The Township has paid all employer contributions required through December 31, 2007.

7. Risk Management

Risk Pool Membership

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

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

**MASON TOWNSHIP
LAWRENCE 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, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust 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 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after 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 provide 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:

**MASON TOWNSHIP
LAWRENCE COUNTY**

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

7. Risk Management (continued)

	<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 \$3,000. 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.

Contributions to OTARMA	
2005	\$ 2,430
2006	\$ 2,643
2007	\$ 1,928

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*

Mason Township
Lawrence County
446 Township Road 209
Willow Wood, Ohio 45696

To the Board of Trustees:

We have audited the financial statements of Mason Township, Lawrence County, Ohio (the Township), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated August 28, 2008, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also issued a qualified opinion on the 2007 and 2006 financial statements of the General and Special Revenue Funds due to the Township declining to make adjustments this audit period for improper postings. 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 opinions 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.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701-2157
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
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: 2007-002 and 2007-003.

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 and 2007-003 are also material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated August 28, 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 2007-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated August 28, 2008.

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



Mary Taylor, CPA
Auditor of State

August 28, 2008

**MASON TOWNSHIP
LAWRENCE 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

Ohio Rev. Code § 505.601 states if a board of township trustees does not procure an insurance policy or group health care services as provided in Section 505.60 of the Revised Code, the board of township trustees may reimburse any township officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of Section 505.60 of the Revised Code that the officer or employee otherwise obtains, if all of the following conditions are met:

(A) The board of township trustees adopts a resolution that states that the township has chosen not to procure a health care plan under Section 505.60 of the Revised Code and has chosen instead to reimburse its officers and employees for each out-of-pocket premium that they incur for insurance policies described in division (A) of Section 505.60 of the Revised Code that they otherwise obtain.

(B) That resolution provides for a uniform maximum monthly or yearly payment amount for each officer or employee, beyond which the township will not reimburse the officer or employee.

(C) That resolution states the specific benefits listed in division (A) of Section 505.60 of the Revised Code for which the township will reimburse all officers and employees of the township. The township may not reimburse officers and employees for benefits other than those listed in division (A) of Section 505.60 of the Revised Code.

Attorney General Opinion No. 2005-038 determined that township officers and employees could be reimbursed for out-of-pocket premium expenses attributable to an officer/employee that are obtained through a spouse's employer. However, the reimbursement through a spouse's plan is limited to the "out-of-pocket premium that the officer or employee incurs", because the policies described in Section 505.60(A) do not include family coverage.

The Township reimbursed Fiscal Officer Richa Shepherd, Township Trustee David Wilson and Township Trustee Jeffrey Estep for family coverage for the years 2006 and 2007, which was in excess of their actual out-of-pocket premium expenses attributable to them only in the amount of \$5,915.49.

Our audits of townships during this audit period have revealed ambiguity in the interpretation of the township reimbursement provisions as demonstrated by various options submitted by prosecuting attorneys. In addition, legislation has been introduced and passed by the Ohio House of Representatives to extend reimbursement for township employees and officials for family coverage. Therefore, we will not issue Findings for Recovery for the overpayment for the remainder of the current audit period.

We recommend the Township revise its health care premium reimbursement policy to limit reimbursement to amounts attributable to township officials and employees only, unless and until the legislature passes Am. H.B. No. 458.

**MASON TOWNSHIP
LAWRENCE COUNTY**

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

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

FINDING NUMBER 2007-002

Finding for Adjustment/Material Weakness

Ohio Rev. Code § 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 No. 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 § 505.24(C) were noted in the Mason Township management letter for the audit conducted for years ending December 31, 2005 and 2004.

For 2007 and 2006, the salaries of the Board of Trustees were paid from the Gasoline Tax Fund. The Board of Trustees did not establish administrative procedures or keep records documenting their time spent on Township business and the type of services performed on these funds. 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.

As a result of the foregoing facts, a Finding For Adjustment is hereby issued against the Township's General Fund in the amount of \$48,892.54 and in favor of the Gasoline Tax Fund.

The Fiscal Officer has not posted this adjustment to the Township records and, therefore, this adjustment is not reflected in the accompanying financial statements.

We recommend the Township adopt formal administrative procedures regarding documenting the time spent by the Board of Trustees 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.

**MASON TOWNSHIP
LAWRENCE COUNTY**

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

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

FINDING NUMBER 2007-003

Finding for Adjustment/Material Weakness

Article XII, Section 5a of the Ohio Constitution states that no monies derived from fees, excise, or license taxes relating to registration, operation, or use of vehicles on public highways, or to fuels used for propelling such vehicles, shall be expended for other than costs of administering such laws, statutory refunds and adjustments provided therein, payment of highway obligations, costs for construction, reconstruction, maintenance and repair of public highways and bridges and other statutory highway purposes, expenses of state enforcement of traffic laws, and expenditures authorized for hospitalization of indigent person injured in motor vehicle accidents on the public highways.

Furthermore, Ohio Rev. Code § 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 No. 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.

For 2007 and 2006, the allowable insurance reimbursements of the Board of Trustees and the Fiscal Officer were paid from the Gasoline Tax Fund. As noted in Finding 2007-003, the Board of Trustees did not keep records of the time spent on various tasks for services rendered. Therefore, the reimbursement of allowable insurance premiums to the Board of Trustees and Fiscal Officer are not to be paid from funds other the General Fund.

As a result of the foregoing facts, a finding for adjustment is hereby issued against the Township's General Fund for 2007 and 2006 in the amount of \$8,454.92 and in favor of the Gasoline Tax Fund in the amounts of \$4,527.84 and \$3,927.08, respectively.

The Fiscal Officer did not post this adjustment to the Township records and, therefore, the accompanying financial statements do not reflect this adjustment.

MASON TOWNSHIP
LAWRENCE COUNTY

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

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

FINDING NUMBER 2007-004

Noncompliance Citation

Ohio Rev. Code Section 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

As discussed in Auditor of State Bulletin 97-012, if a local government is participating in a grant or loan program whereby proceeds will be received after the expenditures are incurred, it is possible that if properly budgeted, appropriations for one fiscal year will exceed the available amount on the certificate of estimated resources. However, an advance should be used to prevent a negative fund balance. Negative variances in grant funds, between appropriations and certified available resources, should be investigated to determine the cause of the variance.

Appropriations exceeded estimated resources at December 31, 2006 as follows:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Dollar Variance</u>
General Fund	\$23,350	\$29,132	(\$5,782)
Motor Vehicle License Tax Fund	12,863	13,572	(709)
Gasoline Tax Fund	77,459	93,481	(16,022)
Road & Bridge Fund	4,206	7,444	(3,238)

This could result in negative fund balances if not monitored.

We recommend the Fiscal Officer and Board of Trustees ensure all appropriations are less than the estimated resources prior to approval.

Officials' Response:

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



Mary Taylor, CPA
Auditor of State

MASON TOWNSHIP

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 11, 2008**