



Mary Taylor, CPA  
Auditor of State



PEBBLE TOWNSHIP  
PIKE COUNTY

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**Mary Taylor, CPA**  
Auditor of State

Pebble Township  
Pike County  
21932 State Route 772  
Waverly, Ohio 45690

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

June 30, 2008

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Pebble Township  
Pike County  
21932 State Route 772  
Waverly, Ohio 45690

To the Board of Trustees:

We have audited the accompanying financial statements of Pebble Township, Pike 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 for the Board of Trustees from the Gasoline Tax and Cemetery Funds in the amount of \$18,803 and \$4,129, respectively, that should have been paid from the General Fund in the amount of \$22,932. 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 for the Board of Trustees from the Gasoline Tax and Cemetery Funds in the amount of \$4,987 and \$6,090, respectively, that should have been paid from the General Fund in the amount of \$11,077. 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 \$34,009, the Gasoline Tax Fund cash fund balance would have increased by \$23,790, and the Cemetery Fund cash fund balance would have increased by \$10,219.

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 Pebble Township, Pike 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 June 30, 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

June 30, 2008

**PEBBLE TOWNSHIP  
PIKE 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>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$22,961	\$70,032	\$92,993
Intergovernmental	21,868	111,411	133,279
Earnings on Investments	294	86	380
Miscellaneous	192	47,142	47,334
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	45,315	228,671	273,986
<b>Cash Disbursements:</b>			
Current:			
General Government	45,014		45,014
Public Safety		25,968	25,968
Public Works		128,616	128,616
Health		20,677	20,677
Capital Outlay		9,500	9,500
Debt Service:			
Redemption of Principal		83,513	83,513
Interest and Other Fiscal Charges		2,059	2,059
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	45,014	270,333	315,347
Total Cash Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>
	301	(41,662)	(41,361)
<b>Other Financing Receipts / (Disbursements):</b>			
Sale of Notes		58,691	58,691
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	0	58,691	58,691
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	301	17,029	17,330
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	11,760	76,387	88,147
<b>Fund Cash Balances, December 31</b>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	<b>\$12,061</b>	<b>\$93,416</b>	<b>\$105,477</b>

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

**PEBBLE TOWNSHIP  
PIKE 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>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$22,143	\$68,190	\$90,333
Intergovernmental	23,650	123,280	146,930
Earnings on Investments	259	518	777
Miscellaneous	290	1,428	1,718
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	46,342	193,416	239,758
<b>Cash Disbursements:</b>			
Current:			
General Government	40,725		40,725
Public Safety		36,123	36,123
Public Works		89,889	89,889
Health		14,940	14,940
Capital Outlay		70,163	70,163
Debt Service:			
Redemption of Principal		79,503	79,503
Interest and Other Fiscal Charges		2,326	2,326
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	40,725	292,944	333,669
Total Cash Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>
	5,617	(99,528)	(93,911)
<b>Other Financing Receipts / (Disbursements):</b>			
Sale of Notes		83,503	83,503
Sale of Fixed Assets		3,450	3,450
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	0	86,953	86,953
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	5,617	(12,575)	(6,958)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	6,143	88,962	95,105
<b>Fund Cash Balances, December 31</b>	<hr/> <b>\$11,760</b> <hr/>	<hr/> <b>\$76,387</b> <hr/>	<hr/> <b>\$88,147</b> <hr/>

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

**PEBBLE TOWNSHIP  
PIKE 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 Pebble Township, Pike 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, cemetery maintenance, and fire protection.

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.

**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:

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

Fire Special Levy Fund – This fund receives property tax money to purchase fire equipment and provide fire protection service to the residents of the Township.

**PEBBLE TOWNSHIP  
PIKE COUNTY**

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

**1. Summary of Significant Accounting Policies (Continued)**

**E. Budgetary Process**

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

**1. Appropriations**

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

**2. Estimated Resources**

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

**3. Encumbrances**

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

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**

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

	<u>2006</u>	<u>2007</u>
Demand deposits	\$88,147	\$75,977
Certificates of deposit		29,500
Total deposits	<u>\$88,147</u>	<u>\$105,477</u>

**Deposits:** Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Township.

**PEBBLE TOWNSHIP  
PIKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 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	\$36,622	\$45,315	\$8,693
Special Revenue	198,598	287,362	88,764
Total	\$235,220	\$332,677	\$97,457

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$48,382	\$45,014	\$3,368
Special Revenue	274,985	270,333	4,652
Total	\$323,367	\$315,347	\$8,020

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$37,190	\$46,342	\$9,152
Special Revenue	207,722	280,369	72,647
Total	\$244,912	\$326,711	\$81,799

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$43,333	\$40,725	\$2,608
Special Revenue	296,686	292,944	3,742
Total	\$340,019	\$333,669	\$6,350

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Gasoline Fund by \$50,422 for the year ended December 31, 2006 and \$34,850 for the year ended December 31, 2007.

**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.

**PEBBLE TOWNSHIP  
PIKE 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. Debt**

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
John Deere Backhoe	\$39,488	2.85%
Ford Tanker Truck	\$8,677	3.10%
Chevy Dump Truck	10,526	3.75%
Total	\$58,691	

The backhoe note was for a backhoe purchased in 2004. The original note was for \$69,473. The truck note was for a tanker truck purchased for the Fire Department in 2005. The original note was for \$20,000. The dump truck note was for a dump truck purchased in 2006. The original note was for \$14,035.

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

	John Deere Backhoe	Ford Tanker Truck	Chevy Dump Truck
<u>Year ending December 31:</u> 2008	\$40,613	\$8,946	\$10,921

**6. Retirement System**

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 include 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.

**PEBBLE TOWNSHIP  
PIKE 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.

**PEBBLE TOWNSHIP  
PIKE 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:

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

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 \$16,000. 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	\$	10,242
2006	\$	10,538
2007	\$	8,394

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*

Pebble Township  
Pike County  
21932 State Route 772  
Waverly, Ohio 45690

To the Board of Trustees:

We have audited the financial statements of Pebble Township, Pike County, Ohio (the Township), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated June 30, 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 qualified our report on the 2007 and 2006 financial statements of the General, Gasoline Tax, and Cemetery 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.

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 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 findings number 2007-001 and 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 June 30, 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 2007-003.

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 June 30, 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.

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



**Mary Taylor, CPA**  
Auditor of State

June 30, 2008

**PEBBLE TOWNSHIP  
PIKE 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 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 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 trustees document all time spent on township business and the type of service(s) performed, in a manner similar to trustees 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 Pebble 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 General Fund, Gasoline Tax Fund, and Cemetery Fund. The Board of Trustees did not keep records of the time spent on various tasks for services rendered.

As a result of the foregoing facts, a finding for adjustment is hereby issued against the Township's General Fund in the amount of \$34,009 and in favor of the Gasoline Tax Fund and Cemetery Fund in the amounts of \$23,790 and \$10,219, respectively.

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

**Officials' Response:**

The Board of Trustees plan to establish a payment plan for the total amount owed from the General Fund in the amount of \$34,009.

**FINDING NUMBER 2007-002**

**Noncompliance Citation**

Ohio Rev. Code § 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

At December 31, 2006, disbursements exceeded appropriations, in the following fund:

Fund	Disbursements	Appropriations	Variance
Gasoline Tax Fund	\$132,171	\$81,729	(\$50,442)

**PEBBLE TOWNSHIP  
PIKE COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2007-002  
(Continued)**

**Noncompliance Citation - Ohio Rev. Code § 5705.41(B) (Continued)**

At December 31, 2007, disbursements exceeded appropriations, in the following fund:

<b>Fund</b>	<b>Disbursements</b>	<b>Appropriations</b>	<b>Variance</b>
Gasoline Tax Fund	\$154,687	\$119,837	(\$34,850)

This was a result of the Township not posting the entire payoff of debt and proceeds of new debt.

Allowing expenditures to exceed appropriations could result in negative fund balances and the use of Township resources required for other services. As such, the Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request the Board of Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**Officials' Response:**

We did not receive a response from Officials to this finding.

**FINDING NUMBER 2007-003**

**Noncompliance Citation**

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**1. "Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

PEBBLE TOWNSHIP  
PIKE COUNTY

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

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

FINDING NUMBER 2007-003  
(Continued)

**Noncompliance Citation - Ohio Rev. Code § 5705.41(D)(1) (Continued)**

**2. Blanket Certificate** – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**3. Super Blanket Certificate** – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Board of Trustees did not establish an amount by resolution for which a “blanket certificate” may be certified and 16% of the disbursements tested in 2006 and 18.5% of the disbursements tested in 2007 were not certified by the Fiscal Officer at the time the commitment was incurred and there was no evidence that the Township followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township’s funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, “then and now” certification should be used.

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

**Officials’ Response:**

We did not receive a response from Officials to this finding.

**PEBBLE TOWNSHIP  
PIKE COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2007-004**

**Material Weakness**

Sound financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustment or reclassification:

- In 2007, the Fiscal Officer did not record certificates of deposit from Mt. Latham Cemetery which were transferred to the Township in the amount of \$29,500.
- In 2006, Intergovernmental Receipts were improperly classified as Taxes in the General Fund (\$1,318), Road and Bridge Fund (\$111), Cemetery Fund (\$399), and Fire Fund (\$589).
- In 2007, Intergovernmental Receipts were improperly classified as Taxes in the General Fund (\$3,699), Road and Bridge Fund (\$1,210), Cemetery Fund (\$2,573), and Fire Fund (\$4,183).
- In 2006, Principal and Interest disbursements, \$4,100 and \$1,695, respectively, for backhoe debt were improperly classified to Public Works in the Gasoline Tax Fund
- In 2007, Principal and Interest disbursements, \$5,300 and \$1,428, respectively, for backhoe debt were improperly classified to Public Works in the Gasoline Tax Fund
- In 2007, Principal disbursements (\$2,700) for backhoe debt were improperly classified to Public Works in the Road and Bridge Fund.
- In 2007, Principal disbursements for backhoe debt (\$2,000) and dump truck debt (\$3,509) were improperly classified to Public Works in the Motor Vehicle License Fund.
- In 2006, Principal and Interest disbursements, \$7,000 and \$631, respectively, for the tanker truck debt and Public Safety disbursements (\$40,716) were improperly classified to Capital Outlay in the Fire Fund.
- In 2007, Principal and Interest disbursements, \$11,313 and \$631, respectively, for the tanker truck debt and Public Safety disbursements (\$25,968) were improperly classified to Capital Outlay in the Fire Fund.
- In 2006, the renewal of backhoe debt (Gasoline Fund) and the renewal of tanker truck debt (Fire Fund) were not included on the Township's books in the amounts of \$49,488 and \$13,015, respectively.
- In 2007, the renewal of backhoe debt (Gasoline Fund) and the renewal of tanker truck debt (Fire Fund) were not included on the Township's books in the amounts of \$39,488 and \$8,677, respectively.
- In 2006, Principal disbursements (\$3,000) for backhoe debt and Health disbursements (\$14,940) were improperly classified to Capital Outlay in the Cemetery Fund.
- In 2006, the new loans for the dump truck in the amount of \$14,000 and the fire tanker truck in the amount of \$7,000 were improperly posted as Miscellaneous Revenue in the Gasoline Tax and Fire Funds, respectively.
- In 2006, the renewal of dump truck debt in the amount of \$2,900 was not properly recorded as Sale of Notes and Redemption of Principal in the Motor Vehicle Fund.
- In 2007, the renewal of dump truck debt in the amount of \$10,526 was not properly recorded as Sale of Notes and Redemption of Principal in the Motor Vehicle Fund.
- In 2007, Health disbursements in the amount of \$20,677 were improperly classified to Capital Outlay in the Cemetery Fund.

**PEBBLE TOWNSHIP  
PIKE COUNTY  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2007-004  
(Continued)**

**Material Weakness (Continued)**

- In 2006, \$3,450 sale of vehicles was improperly posted as Miscellaneous Revenue instead of Sale of Assets in the Gasoline Tax Fund.

To ensure the Township's financial statements and notes to the financial statements are complete and accurate, the Township should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer or Board of Trustees, to identify and correct errors or omissions.

**Officials' Response:**

We did not receive a response from Officials to this finding.

**PEBBLE TOWNSHIP  
PIKE 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; <b><i>Explain</i></b>
2005-001	Ohio Rev. Code Section 5705.41(B) - Expenditures exceeded appropriations.	No	Not Corrected; re-issued as Finding Number 2007-002.
2005-002	Ohio Rev. Code Section 5705.41(D) - Proper encumbering.	No	Not Corrected; re-issued as Finding Number 2007-003.



**Mary Taylor, CPA**  
Auditor of State

**PEBBLE TOWNSHIP**

**PIKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 17, 2008**