



Dave Yost • Auditor of State

**LEE TOWNSHIP
MONROE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Lee Township
Monroe County
P.O. Box 219
Sardis, Ohio 43946

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Lee Township, Monroe County, Ohio (the Township), as of and for the years ended December 31, 2013 and 2012.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Township's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2013 and 2012, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Lee Township, Monroe County, Ohio, as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

August 7, 2014

**LEE TOWNSHIP
MONROE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$26,349	\$26,997	\$1,290		\$54,636
Licenses, Permits and Fees		5,200			5,200
Intergovernmental	14,082	87,410	9,730		111,222
Earnings on Investments	85	7			92
Miscellaneous	20,836	2,858			23,694
<i>Total Cash Receipts</i>	<u>61,352</u>	<u>122,472</u>	<u>11,020</u>	<u>\$0</u>	<u>194,844</u>
Cash Disbursements					
Current:					
General Government	34,390				34,390
Public Safety		13,711			13,711
Public Works	11,918	100,839			112,757
Health	6,514	20,190			26,704
Debt Service:					
Principal Retirement			13,225	60,800	74,025
Interest and Fiscal Charges			4,821		4,821
<i>Total Cash Disbursements</i>	<u>52,822</u>	<u>134,740</u>	<u>18,046</u>	<u>60,800</u>	<u>266,408</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>8,530</u>	<u>(12,268)</u>	<u>(7,026)</u>	<u>(60,800)</u>	<u>(71,564)</u>
Other Financing Receipts (Disbursements)					
Other Debt Proceeds				60,800	60,800
Transfers In			15,000		15,000
Transfers Out	(15,000)				(15,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(15,000)</u>	<u>0</u>	<u>15,000</u>	<u>60,800</u>	<u>60,800</u>
<i>Net Change in Fund Cash Balances</i>	<u>(6,470)</u>	<u>(12,268)</u>	<u>7,974</u>	<u>0</u>	<u>(10,764)</u>
<i>Fund Cash Balances, January 1</i>	<u>49,663</u>	<u>28,922</u>	<u>1,577</u>	<u>0</u>	<u>80,162</u>
Fund Cash Balances, December 31					
Restricted		14,390	9,551		23,941
Committed		2,264			2,264
Assigned	43,193				43,193
<i>Fund Cash Balances, December 31</i>	<u>\$43,193</u>	<u>\$16,654</u>	<u>\$9,551</u>	<u>\$0</u>	<u>\$69,398</u>

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

**LEE TOWNSHIP
MONROE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$26,601	\$27,675	\$1,290		\$55,566
Licenses, Permits and Fees		5,450			5,450
Intergovernmental	92,415	125,859	9,730		228,004
Earnings on Investments	114	14			128
Miscellaneous	37,773	1,607			39,380
<i>Total Cash Receipts</i>	<u>156,903</u>	<u>160,605</u>	<u>11,020</u>	<u>\$0</u>	<u>328,528</u>
Cash Disbursements					
Current:					
General Government	39,170				39,170
Public Safety		13,918			13,918
Public Works	29,761	197,150			226,911
Health	6,498	14,442			20,940
Capital Outlay	45,261			64,800	110,061
Debt Service:					
Principal Retirement			8,782		8,782
Interest and Fiscal Charges			2,225		2,225
<i>Total Cash Disbursements</i>	<u>120,690</u>	<u>225,510</u>	<u>11,007</u>	<u>64,800</u>	<u>422,007</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>36,213</u>	<u>(64,905)</u>	<u>13</u>	<u>(64,800)</u>	<u>(93,479)</u>
Other Financing Receipts (Disbursements)					
Other Debt Proceeds				64,800	64,800
Sale of Capital Assets	2,100				2,100
Transfers In		4,999			4,999
Transfers Out		(4,999)			(4,999)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>2,100</u>	<u>0</u>	<u>0</u>	<u>64,800</u>	<u>66,900</u>
<i>Net Change in Fund Cash Balances</i>	38,313	(64,905)	13	0	(26,579)
<i>Fund Cash Balances, January 1</i>	<u>11,350</u>	<u>93,827</u>	<u>1,564</u>	<u>0</u>	<u>106,741</u>
Fund Cash Balances, December 31					
Restricted		23,555	1,577		25,132
Committed		5,367			5,367
Assigned	49,663				49,663
<i>Fund Cash Balances, December 31</i>	<u>\$49,663</u>	<u>\$28,922</u>	<u>\$1,577</u>	<u>\$0</u>	<u>\$80,162</u>

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

**LEE TOWNSHIP
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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 Lee Township, Monroe County, Ohio (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection, and emergency medical services. The Township contracts with the Sardis Volunteer Fire Department to provide fire protection services.

The Township participates in the Ohio Plan Risk Management, Inc. (OPRM), a risk-sharing pool available to Ohio Townships. Note 7 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Fund Accounting

The Township uses fund accounting to segregate cash that is restricted as to use. The Township classifies its funds into the following types:

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. 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.

Federal Emergency Management Agency (FEMA) Fund - This fund receives Federal and State grants to provide flood damage relief.

**LEE TOWNSHIP
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

C. Fund Accounting (Continued)

3. Debt Service Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Township had the following significant Debt Service Funds:

Note Retirement Dump Truck Fund - This fund receives gasoline tax and local government money for principal and interest payments related to Township debt for the purchase of a dump truck.

Note Retirement Sardis School Building Fund - This fund receives transfers from the General Fund for principal and interest payments related to Township debt for the purchase of a building.

4. Capital Project Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Township had the following significant Capital Projects Fund:

Sardis School Building Capital Projects Fund - This fund received loan proceeds for the purchase of a former school building to be used as the Township hall.

D. 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. 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 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 2013 and 2012 budgetary activity appears in Note 3.

**LEE TOWNSHIP
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

E. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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.

**LEE TOWNSHIP
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

2. Equity in Pooled Deposits

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

	2013	2012
Demand deposits	\$69,398	\$80,162

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2013 and 2012, follows:

2013 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$46,352	\$61,352	\$15,000
Special Revenue	128,250	122,472	(5,778)
Debt Service	26,020	26,020	0
Capital Projects		60,800	60,800
Total	\$200,622	\$270,644	\$70,022

2013 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$86,998	\$67,822	\$19,176
Special Revenue	172,302	134,740	37,562
Debt Service	12,597	18,046	(5,449)
Capital Projects		60,800	(60,800)
Total	\$271,897	\$281,408	(\$9,511)

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$141,663	\$159,003	\$17,340
Special Revenue	181,233	165,604	(15,629)
Debt Service	11,020	11,020	0
Capital Projects	64,800	64,800	0
Total	\$398,716	\$400,427	\$1,711

**LEE TOWNSHIP
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

3. Budgetary Activity (Continued)

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$51,319	\$120,690	(\$69,371)
Special Revenue	237,879	230,509	7,370
Debt Service	12,584	11,007	1,577
Capital Projects		64,800	(64,800)
Total	\$301,782	\$427,006	(\$125,224)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Note Retirement Sardis School Building Fund and Sardis School Building Capital Projects Fund by \$7,039 and \$60,800, respectively, for the year ended December 31, 2013. Also, budgetary expenditures exceeded appropriation authority in the General Fund and Sardis School Building Capital Projects Fund by \$69,371 and \$64,800, respectively, for the year ended December 31, 2012.

Also, contrary to Ohio law, appropriations exceeded estimated resources in the General Fund by \$8,323 for the year ended December 31, 2013.

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.

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, 2013, was as follows:

	Principal	Interest Rate
Tractor Promissory Note	\$1,670	4.76%
Dump Truck Promissory Note	25,283	5.00%
Sardis School Building Promissory Note	60,800	4.75%
Total	\$87,753	

The Township issued a promissory note to finance the purchase of a John Deere tractor for Township road maintenance. The promissory note is collateralized by the tractor.

The Township issued a promissory note to finance the purchase of a dump truck for Township road maintenance. The promissory note is collateralized by the dump truck.

**LEE TOWNSHIP
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

5. Debt (Continued)

The Township issued a promissory note in the amount of \$64,800 to finance the purchase of the former Sardis school building to be used as the Township hall. The promissory note was collateralized by the building and was paid in full on October 15, 2013 with \$4,000 of the Township's revenues and \$60,800 from the proceeds of the promissory note discussed below.

The Township issued a promissory note in the amount of \$60,800 to refinance the promissory note for the purchase of the former Sardis school building to be used as the Township hall. The promissory note was collateralized by the building.

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

Year ending December 31:	Promissory Note - Tractor	Promissory Note - Dump Truck	Promissory Note - Sardis School Building
2014	\$1,720	\$9,287	\$5,760
2015		9,287	5,760
2016		9,287	5,760
2017			5,760
2018			5,760
2019-2023			28,801
2024-2028			28,540
Total	<u>\$1,720</u>	<u>\$27,861</u>	<u>\$86,141</u>

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 includes postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2013 and 2012, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2013.

7. Risk Management

The Township belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

**LEE TOWNSHIP
MONROE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

7. Risk Management (Continued)

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

OPRM had 767 and 765 members as of December 31, 2012 and 2011, respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011 (the latest information available).

	<u>2012</u>	<u>2011</u>
Assets	\$13,100,381	\$12,501,280
Liabilities	(6,687,193)	(5,328,761)
Members' Equity	<u>\$6,413,188</u>	<u>\$7,172,519</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

8. Contingent Liabilities

A. Grants

Amounts grantor agencies pay to the Township are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

B. Oil/Gas Lease

The Township entered into a "Paid-Up" Oil and Gas Lease. The lease is for 1.8 acres of property owned by Lee Township, Monroe County, Ohio, and is effective October 5, 2013, for a five year period with Eclipse Resources I, LP. The lease calls for payments to the Township, in addition to the bonus, royalties in the amount of 20 percent of the net proceeds for all oil, gas and/or hydrocarbons produced and saved from the land. As of the date of the financial statements, the value of any potential royalties cannot be determined.

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Lee Township
Monroe County
P.O. Box 219
Sardis, Ohio 43946

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Lee Township, Monroe County, Ohio (the Township), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated August 7, 2014, wherein we noted the Township followed financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03 permits.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Township's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying Schedule of Findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-002, 2013-003, 2013-006, and 2013-007 described in the accompanying Schedule of Findings to be material weaknesses.

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, opining 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 we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2013-001 through 2013-005.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

August 7, 2014

**LEE TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2013-001

Noncompliance

Ohio Rev. Code Chapter 133 authorizes certain methods by which subdivisions may incur debt. Under Ohio Rev. Code § 133.22, a subdivision may issue anticipatory-securities if it meets the requirements outlined in the statute. Further, Ohio Rev. Code § 133.10 permits a subdivision to issue anticipation securities in anticipation of current property tax revenues or in anticipation of current revenues in and for any fiscal year from any source or combination of sources, including distributions of any federal or state monies, other than the proceeds of property taxes levied by the subdivision. Under Ohio Rev. Code § 133.15, a subdivision is authorized to issue securities for the purpose of paying all or any portion of the costs of any permanent improvement that the subdivision is authorized, alone or in cooperation with other persons, to acquire, improve, or construct. In addition, under Ohio Rev. Code § 133.18, the taxing authority of a subdivision, may by legislation submit to the electors of the subdivision the question of issuing any general obligation bonds, for one purpose, that the subdivision has power or authority to issue.

In 2013, the Township issued a fifteen year commercial promissory note in the amount of \$60,800 with Citizens National Bank to refinance the Township's commercial promissory note for the purchase of a former school building. In 2012, the Township issued a five year commercial promissory note in the amount of \$64,800 with Citizens National Bank to purchase a former school building. This type of debt does not meet the criteria for any of the debt authorized in Ohio Rev. Code Chapter 133.

Without a statutory provision authorizing this method for incurring debt, the Township was not permitted to use such method. In the instant case, the Township had no statutory authority to incur debt through either installment loans or promissory notes with any banking institutions.

We recommend the Township consult with legal counsel when the Board anticipates incurring debt to help ensure the debt is authorized by statute.

FINDING NUMBER 2013-002

Noncompliance and Material Weakness

Ohio Rev. Code § 505.11(B) states, in part, when, in its opinion, the township would be benefited, the board of township trustees may execute and deliver contracts or leases to mine iron ore, stone, coal, petroleum, gas, salt, and other minerals upon lands owned by the township, to any person complying with the terms prescribed by the board as to consideration, rights of way, and occupancy of ground for necessary purposes. The consideration for the contracts and leases shall be rental or royalty as is prescribed by the board, and shall be payable, as prescribed in the contract or lease, at least once a year to the township fiscal officer, who shall give a receipt for the amount and deposit it in the township general fund.

The Township recorded gas and oil bonus monies in 2012 in the amount of \$17,340 to the Cemetery Fund instead of the General Fund.

This adjustment, with which management agrees, is posted to the accounting records and is reflected within the accompanying financial statements.

**LEE TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2013-002 (Continued)

Noncompliance and Material Weakness - Ohio Rev. Code § 505.11(B) (Continued)

We recommend the Township post all future gas and oil bonus and/or royalties to the General Fund in accordance with the aforementioned requirements.

FINDING NUMBER 2013-003

Noncompliance and Material Weakness

Ohio Rev. Code § 5705.10(D) provides, in part, that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

Capital projects funds are used to account for and report financial resources and expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Debt service funds are used to account for and report financial resources and expenditures for principal and interest.

In 2012, the Township posted loan proceeds and capital outlay expenditure for the purchase of a school building in the amount of \$64,800 to the Debt Service Fund. Loan proceeds were used to purchase the building and the capital outlay expenditure was used to record the cash disbursement for the acquisition of the building. The loan proceeds and capital outlay should have been posted to a Capital Projects Fund and principal and interest payments on the loan (scheduled to begin in October 2014) should be posted to the Debt Service Fund.

These adjustments, with which management agrees, are reflected within the accompanying financial statements.

We recommend the Township utilize available authoritative resources to appropriately classify receipt and expenditure transactions.

FINDING NUMBER 2013-004

Noncompliance

Ohio Rev. Code § 5705.39 provides, in part, that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the Budget Commission.

In 2013, the Township appropriations exceeded estimated resources in the General Fund by \$8,323.

We recommend the Board of Trustees and Fiscal Officer monitor appropriations and estimated resources and file amendments as needed with the County Auditor to ensure the total appropriations from each fund do not exceed the total official estimate or amended official estimate of resources available for expenditure.

**LEE TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2013-005

Noncompliance

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

Expenditures exceeded appropriations in 2013 in the Note Retirement Sardis School Building Fund and the Sardis School Building Capital Projects Fund in the amount of \$7,039 and \$60,800, respectively.

Expenditures exceeded appropriations in 2012 in the General Fund and Sardis School Building Capital Projects Fund in the amount of \$69,371 and \$64,800, respectively.

We recommend the Board of Trustees and Fiscal Officer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the Board of Trustees should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The Fiscal Officer should deny requests for payment when appropriations are not available.

FINDING NUMBER 2013-006

Material Weakness

All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Ohio Township Handbook (revised March 2014) and the UAN Accounting and General Manual (revised December 2013) provide five suggested fund balance classifications and clarifies the existing governmental fund type definitions. The fund balance classifications relate to constraints placed upon the use of resources reported in governmental funds. The five classifications are nonspendable, restricted, committed, assigned and unassigned.

During 2013 and 2012, Township's fund balance classification for the Road and Bridge, Special Revenue Fund-Type, was not posted to accurate fund balance classification, based upon the constraints placed upon the use of resources reported in this governmental fund. The Road and Bridge levy is strictly related to inside millage in which the Board of Trustees imposed an internal constraint on the resources in this fund and compliance with constraints imposed by the local government is not considered to be legally enforceable. Restricted fund balance constraints are externally imposed or are enacted through enabling legislation and are legally enforceable. The Township classified the Road and Bridge Fund balance of \$2,264 in 2013 and \$5,367 in 2012 as restricted rather than committed.

Ohio Rev. Code § 517.07 establishes the township's ability to sell cemetery lots stating that upon application, the board of township trustees shall sell at a reasonable price the number of lots as public wants demand for burial purposes. Ohio Rev. Code § 517.08 places the restriction on these dollars stating that the proceeds arising from the sale of cemetery lots under Ohio Rev. Code § 517.07 shall be used in maintaining, improving, beautifying, and embellishing such grounds. If the charges for services received under Ohio Rev. Code § 517.07 are considered the foundation revenue of the cemetery fund, then it is a special revenue fund with a restricted fund balance. The Township classified the Cemetery Fund balance of \$4,894 in 2013 and \$5,233 in 2012 as assigned rather than restricted.

**LEE TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012
(Continued)**

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

FINDING NUMBER 2013-006 (Continued)

Material Weakness (Continued)

When the appropriation measure is adopted for the subsequent year, if a portion of existing fund balance is included as a budgetary resource, then that portion of fund balance should be classified as assigned. Stated differently, if appropriations (temporary or annual) exceed estimated receipts (not resources), the excess is to be assigned as it uses existing fund balance at year-end. This would be applicable to the general fund as it is the only fund with a positive unassigned fund balance. The Township appropriated the General Fund unencumbered fund balance of \$43,193 at December 31, 2013 in 2014 and \$49,663 at December 31, 2012 in 2013 and classified these fund balances as unassigned rather than assigned.

The Township adjusted the accompanying financial statements to properly reflect fund balance classifications for the funds noted above.

We recommend the Township develop internal control procedures to ensure the financial statements of the Township accurately reflect its fund balances in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54 reporting requirements. The Fiscal Officer may refer to Auditor of State Bulletin 2011-004 for additional guidance.

FINDING NUMBER 2013-007

Material Weakness

The Township should establish internal controls to reasonably assure that budgetary accounts, at the legal level of control or lower, are integrated into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The Fiscal Officer did not always accurately post budgeted receipts, and any amendments made to them, to the Uniform Accounting Network (UAN) accounting system. Variances existed between the certificate of estimated resources and the amounts posted to the accounting system. The following table details this variance for 2013:

<u>Fund</u>	<u>Amount Per Last Amended Certificate</u>	<u>Amounts Posted to the Accounting System</u>	<u>Variance</u>
General	\$46,352	\$61,352	(\$15,000)

The Fiscal Officer did not always accurately post appropriations, and any amendments made to them, to the accounting system. Variances existed between the 2013 appropriation resolution/amendments to the amounts posted to the accounting system. The following table details these variances:

<u>Fund</u>	<u>Amount Per Appropriation Resolution</u>	<u>Amounts Posted to the Accounting System</u>	<u>Variance</u>
General	\$86,998	\$93,675	(\$6,677)
Gasoline Tax	86,990	87,548	(558)
Note Retirement Sardis			
School Building	0	15,000	(15,000)

**LEE TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2013-007 (Continued)

Material Weakness (Continued)

The Fiscal Officer did not always accurately post appropriations, and any amendments made to them, to the accounting system. Variances existed between the 2012 appropriation resolution/amendments to the amounts posted to the accounting system. The following table details these variances:

<u>Fund</u>	<u>Amount Per Appropriation Resolution</u>	<u>Amounts Posted to the Accounting System</u>	<u>Variance</u>
General	\$51,319	\$153,013	(\$101,694)
Gasoline Tax	89,192	94,191	(4,999)
Sardis School Building Capital Projects	0	64,800	(64,800)

Because the information entered into the accounting system was inaccurate, Township management was unable to effectively monitor budgetary versus actual activity. Adjustments were made to the budgetary activity reported in Note 3 to the financial statements in order to accurately present budgeted receipts as certified by the County Budget Commission and appropriations per the appropriation resolution.

We recommend the Fiscal Officer record only estimated receipts per the Official Certificate of Estimated Resources and appropriations approved by Board of Trustees. The Fiscal Officer should periodically present budget vs. actual results to the Board. As part of their monitoring responsibilities, the Trustees should review this information and should inquire to the Fiscal Officer if they note apparent errors in the budget or actual data and should also use this information to determine if they should amend estimated revenue or appropriations.

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

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Dave Yost • Auditor of State

LEE TOWNSHIP

MONROE 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
AUGUST 28, 2014**