



**MADISON TOWNSHIP  
LAKE COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2005**

**SINGLE AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2004**



**Auditor of State  
Betty Montgomery**



MADISON TOWNSHIP  
LAKE COUNTY

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**Auditor of State  
Betty Montgomery**

Madison Township  
Lake County  
2065 Hubbard Road  
Madison, Ohio 44057

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 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 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 black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

September 29, 2006

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Madison Township  
Lake County  
2065 Hubbard Road  
Madison, Ohio 44057

To the Board of Trustees:

We have audited the accompanying financial statements of Madison Township, Lake County, Ohio, (the Township) as of and for the years ended December 31, 2005 and December 31, 2004. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements. Since this Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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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, 2005 and December 31, 2004 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, 2005 and December 31, 2004, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Madison Township, Lake County, Ohio, as of December 31, 2005 and December 31, 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the year ended December 31, 2005 and December 31, 2004. 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 September 29, 2006, 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.

We conducted our audit to opine on the financial statements that collectively comprise the District's combined financial statements. The schedule of federal awards expenditures for the year ended December 31, 2004 is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the combined financial statements. We subjected the schedule of federal awards expenditures to the auditing procedures applied in the audit of the combined financial statements. In our opinion, this information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

September 29, 2006



**MADISON TOWNSHIP  
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Local Taxes	\$308,440	\$2,277,849	\$0	\$2,586,289
Intergovernmental	644,213	578,512	0	1,222,725
Special Assessments	0	59,139	0	59,139
Charges for Services	0	0	0	0
Licenses, Permits, and Fees	46,335	897	2,200	49,432
Fines, Forfeitures, and Penalties	20,226	0	0	20,226
Interest	48,533	4,161	0	52,694
Other Revenue	152,399	65,654	0	218,053
	<u>1,220,146</u>	<u>2,986,212</u>	<u>2,200</u>	<u>4,208,558</u>
<b>Total Cash Receipts</b>				
	<u>1,220,146</u>	<u>2,986,212</u>	<u>2,200</u>	<u>4,208,558</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	778,015	0		778,015
Public Safety	41,882	1,672,670	0	1,714,552
Public Works	16,574	1,024,125	0	1,040,699
Health	17,588	967	0	18,555
Conservation - Recreation	322,987	0	0	322,987
Capital Outlay	0	60,249	1,825	62,074
Debt Service:				
Redemption of Principal	30,000	20,000	30,000	80,000
Interest and Fiscal Charges	2,373	0	0	2,373
	<u>1,209,419</u>	<u>2,778,011</u>	<u>31,825</u>	<u>4,019,255</u>
<b>Total Cash Disbursements</b>				
	<u>1,209,419</u>	<u>2,778,011</u>	<u>31,825</u>	<u>4,019,255</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>10,727</u>	<u>208,201</u>	<u>(29,625)</u>	<u>189,303</u>
<b>Other Financing Receipts and (Disbursements):</b>				
Other Sources	200,000	0	0	200,000
Other Uses	(237)	0	0	(237)
	<u>199,763</u>	<u>0</u>	<u>0</u>	<u>199,763</u>
<b>Total Other Financing Receipts/(Disbursements)</b>				
	<u>199,763</u>	<u>0</u>	<u>0</u>	<u>199,763</u>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	210,490	208,201	(29,625)	389,066
<b>Fund Cash Balances, January 1, 2005</b>	<u>272,698</u>	<u>996,209</u>	<u>31,753</u>	<u>1,300,660</u>
<b>Fund Cash Balances, December 31, 2005</b>	<u><u>\$483,188</u></u>	<u><u>\$1,204,410</u></u>	<u><u>\$2,128</u></u>	<u><u>\$1,689,726</u></u>
<b>Reserve for Encumbrances, December 31, 2005</b>	<u><u>\$245,806</u></u>	<u><u>\$45,024</u></u>	<u><u>\$0</u></u>	<u><u>\$290,830</u></u>

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

**MADISON TOWNSHIP  
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Local Taxes	\$302,516	\$2,225,377	\$0	\$2,527,893
Intergovernmental	606,735	525,976	772,000	1,904,711
Special Assessments	0	52,176	0	52,176
Licenses, Permits, and Fees	52,141	935	16,396	69,472
Fines, Forfeitures, and Penalties	20,186	0	0	20,186
Interest	16,977	1,679	0	18,656
Other Revenue	154,119	71,928	0	226,047
	<u>1,152,674</u>	<u>2,878,071</u>	<u>788,396</u>	<u>4,819,141</u>
<b>Total Cash Receipts</b>				
	<u>1,152,674</u>	<u>2,878,071</u>	<u>788,396</u>	<u>4,819,141</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	757,095	0	0	757,095
Public Safety	90,489	1,625,466	0	1,715,955
Public Works	16,448	1,035,170	0	1,051,618
Health	17,874	1,755	0	19,629
Conservation - Recreation	215,588	0	0	215,588
Capital Outlay	0	19,782	1,040,873	1,060,655
Debt Service:	0	0	0	0
Redemption of Principal	74,197	40,000	0	114,197
Interest and Fiscal Charges	9,018	0	0	9,018
	<u>1,180,709</u>	<u>2,722,173</u>	<u>1,040,873</u>	<u>4,943,755</u>
<b>Total Cash Disbursements</b>				
	<u>1,180,709</u>	<u>2,722,173</u>	<u>1,040,873</u>	<u>4,943,755</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>(28,035)</u>	<u>155,898</u>	<u>(252,477)</u>	<u>(124,614)</u>
<b>Other Financing Receipts and (Disbursements):</b>				
Loan Proceeds	0	0	100,000	100,000
Other Sources	0	0	35,000	35,000
	<u>0</u>	<u>0</u>	<u>135,000</u>	<u>135,000</u>
<b>Total Other Financing Receipts/(Disbursements)</b>				
	<u>0</u>	<u>0</u>	<u>135,000</u>	<u>135,000</u>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<u>(28,035)</u>	<u>155,898</u>	<u>(117,477)</u>	<u>10,386</u>
<b>Fund Cash Balances, January 1, 2004</b>	<u>300,733</u>	<u>840,311</u>	<u>149,230</u>	<u>1,290,274</u>
<b>Fund Cash Balances, December 31, 2004</b>	<u><u>\$272,698</u></u>	<u><u>\$996,209</u></u>	<u><u>\$31,753</u></u>	<u><u>\$1,300,660</u></u>
<b>Reserve for Encumbrances, December 31, 2004</b>	<u><u>\$88,500</u></u>	<u><u>\$44,532</u></u>	<u><u>\$925</u></u>	<u><u>\$133,957</u></u>

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

**MADISON TOWNSHIP  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Madison Township, Lake County, Ohio, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides general government services, including road and bridge maintenance, cemetery maintenance, and police services. Fire protection and emergency medical services are provided by the Madison Fire District.

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

**B. Basis of Accounting**

These financial statements follow the basis of accounting 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. STAR Ohio is recorded at share values the mutual funds report.

**D. Fund Accounting**

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

**1. General Fund**

The General Fund reports all financial resources except those required to be accounted for in another fund.

**MADISON TOWNSHIP  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Fund Accounting (Continued)**

**2. Special Revenue Funds**

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

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

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

**3. Capital Project Fund**

This fund is used to account for receipts restricted for the acquisition or construction of major capital projects. The Township had the following significant capital project fund:

Permanent Improvement Fund – This fund receives fees from residents for a waterline project and received a federal grant in 2004.

**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 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.

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

**MADISON TOWNSHIP  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Property, Plant, and Equipment**

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

**G. Accumulated Leave**

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

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	2005	2004
Demand deposits	\$33,699	\$40,664
Petty Cash	250	250
Certificates of deposit	362,759	303,021
Total deposits	396,708	343,935
 STAR Ohio	 1,293,018	 956,725
Total investments	1,293,018	956,725
Total deposits and investments	\$1,689,726	\$1,300,660

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

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

Fund Type	2005 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$1,420,146	\$1,420,146	\$0
Special Revenue	2,985,776	2,986,212	436
Capital Projects	2,200	2,200	0
Total	\$4,408,122	\$4,408,558	\$436

**MADISON TOWNSHIP  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**3. BUDGETARY ACTIVITY (CONTINUED)**

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,458,624	\$1,455,462	\$3,162
Special Revenue	3,937,453	2,823,035	1,114,418
Capital Projects	33,028	31,825	1,203
Total	<u>\$5,429,105</u>	<u>\$4,310,322</u>	<u>\$1,118,783</u>

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,152,487	\$1,152,674	\$187
Special Revenue	2,877,777	2,878,071	294
Capital Projects	1,116,396	923,396	(193,000)
Total	<u>\$5,146,660</u>	<u>\$4,954,141</u>	<u>(\$192,519)</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,318,114	\$1,269,209	\$48,905
Special Revenue	3,502,400	2,766,705	735,695
Capital Projects	1,265,626	1,041,798	223,828
Total	<u>\$6,086,140</u>	<u>\$5,077,712</u>	<u>\$1,008,428</u>

Contrary to Ohio Revised Code Section 5705.41(D) the Township had twelve percent of expenditures tested in 2005 and eight percent of expenditures tested in 2004 which were not properly encumbered.

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopt 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.

**MADISON TOWNSHIP  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**4. PROPERTY TAX (CONTINUED)**

Public utilities are also taxed on personal and real property located within the Township.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

**5. DEBT**

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
Ohio Public Works Loan	\$80,000	0%
Lake County Commissioners Loan	70,000	**
Total	\$150,000	

The Ohio Public Works Loan issued in 2001 was for Davista Area Drain Reconstruction. The terms of the loan were 10 years.

The Lake County Commissioners Loan of \$100,000 was advanced to the Township in 2004 for the River Road Improvement Project. The Township can draw from the Lake County Commissioners in the amount of \$300,000 for this project.

\*\* - As of this date the interest rate has not been determined by the Lake County Commissioners.

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

	OPWC Loans	Lake County Commissioners Loan	Totals
Year ending December 31:			
2006	\$20,000	\$30,000	50,000
2007	20,000	30,000	50,000
2008	20,000	10,000	30,000
2009	20,000	0	20,000
2010	0	0	0
Total	\$80,000	\$70,000	\$150,000

**6. RETIREMENT SYSTEMS**

The Township's police belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

**MADISON TOWNSHIP  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**6. RETIREMENT SYSTEMS (CONTINUED)**

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, members of OP&F participants contributed 10 percent of their wages. The Township contributed an amount equal to 24 percent of their wages to OP&F. OPERS members contributed 8.5 percent of their gross salaries. The Township contributed an amount equaling 13.55 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2005.

**7. RISK MANAGEMENT**

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

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

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP).

Member townships pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

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. Townships can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA'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.

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. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.



**MADISON TOWNSHIP  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**7. RISK MANAGEMENT (CONTINUED)**

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 township.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Members may withdraw on each anniversary of the date they joined OTARMA. They must 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 contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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, 2005 and 2004.

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$30,485,638	\$28,132,620
Liabilities	<u>(12,344,576)</u>	<u>(11,086,379)</u>
Retained earnings	<u>\$18,141,062</u>	<u>\$17,046,241</u>
<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$9,177,796	\$7,588,343
Liabilities	<u>(1,406,031)</u>	<u>(543,176)</u>
Retained earnings	<u>\$7,771,765</u>	<u>\$7,045,167</u>

The Casualty Coverage assets and retained earnings above include approximately \$11.6 million and \$10.3 million of unpaid claims to be billed to approximately 950 member townships in the future, as of December 31, 2005 and 2004, respectively. OTARMA will collect these amounts in future annual premium billings when OTARMA's related liabilities are due for payment. The Township's share of these unpaid claims is approximately \$122,546.

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**MADISON TOWNSHIP  
LAKE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b><u>U.S. DEPARTMENT OF DEFENSE</u></b>			
Direct Programs:			
U.S. Army Corps of Engineers- Section 594 of the Water Resource Development Act of 1999	N/A	12.XXX	<u>\$807,000</u>
Total U.S. Department of Defense			807,000
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
Direct Programs:			
Bulletproof Vest Partnership Program	N/A	16.607	1,650
Public Safety Partnership and Community Policing Grant	N/A	16.710	<u>18,376</u>
Total U.S. Department of Justice			<u>20,026</u>
<b>Total Federal Assistance</b>			<b><u><u>\$827,026</u></u></b>

The accompanying notes to this schedule are an integral part of this schedule.

**MADISON TOWNSHIP  
LAKE COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED DECEMBER 31, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Expenditures Schedule summarizes activity of the Township's federal award programs. The schedule has been prepared on the cash basis of accounting.



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Madison Township  
Lake County  
2065 Hubbard Road  
Madison, Ohio 44057

To the Board of Trustees:

We have audited the financial statements of the Madison Township, Lake County, Ohio, (the Township) as of and for the years ended December 31, 2005 and December 31, 2004, and have issued our report thereon dated September 29, 2006, 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 noted that 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 because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Township's management dated September 29, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the Township's management dated September 29, 2006, we reported other matters related to noncompliance we deemed immaterial.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
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Madison Township  
Lake County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the management, Board of Trustees, and federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

September 29, 2006



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Madison Township  
Lake County  
2065 Hubbard Road  
Madison, Ohio 44057

To the Board of Trustees:

#### **Compliance**

We have audited the compliance of the Madison Township, Lake County, Ohio, (the Township) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended December 31, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the Township's major federal program. The Township's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the Township's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Township's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Township's compliance with those requirements.

In our opinion, the Madison Township, Lake County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2004. In a separate letter to the Township's management dated September 29, 2006, we reported other matters related to federal program noncompliance we deemed immaterial.

#### **Internal Control Over Compliance**

The Township's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Township's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the management, Board of Trustees, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

September 29, 2006



**MADISON TOWNSHIP  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2005 AND 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	U.S. Army Corps of Engineers Section 594 of the Water Resource Development Act of 1999 #12.XXX
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: All others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**MADISON TOWNSHIP  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(CONTINUED)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

**FINDING NUMBER 2005-001**

**PROPER ENCUMBRANCE OF FUNDS**

Ohio Rev. Code Section 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.

**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.

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 utilize the encumbrance method of accounting and 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.

**MADISON TOWNSHIP  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(CONTINUED)**

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
---

**FINDING NUMBER 2005-001 (Continued)**

**PROPER ENCUMBRANCE OF FUNDS (Continued)**

Twelve percent of expenditures tested in 2005 and eight percent of expenditures tested in 2004 were not certified by the Fiscal Officer at the time the commitment was incurred and there was no evidence the Township followed the aforementioned exceptions.

We recommend the Township certify/encumber the funds for all expenditures in accordance with the above Ohio Revised Code Section.

**Officials' Response:**

The Township in the future will take the necessary steps to fully comply with ORC 5704.41(D).

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None

MADISON TOWNSHIP  
LAKE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004

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>
2003-001	ORC 5705.41(B)(D) Expenditures and Encumbrances in Excess of Appropriations.	Yes	



**Auditor of State  
Betty Montgomery**

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**MADISON TOWNSHIP**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 9, 2006**