



**SCOTT TOWNSHIP
SANDUSKY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2006



Mary Taylor, CPA
Auditor of State

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Scott Township
Sandusky County
2465 County Road 36
Kansas, Ohio 44841-9611

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Scott Township, Sandusky County, Ohio (the Township), as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions 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 discussed in Note 1, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Scott Township, Sandusky County, Ohio, as of December 31, 2006, and the respective changes in modified cash financial position and the respective budgetary comparison for the General, Gasoline Tax and Fire Special Levy Funds for the year then ended in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2007, 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Mary Taylor, CPA
Auditor of State

June 19, 2007

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

This discussion and analysis of Scott Township's financial performance provides an overall review of the Township's financial activities for the year ended December 31, 2006, within the limitations of the Township's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Township's financial performance.

Highlights

Key highlights for 2006 are as follows:

- Net assets of governmental activities decreased \$27,699 or 42 percent, a significant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the General Fund, which did not receive any estate tax in 2006 as it did in 2005.
- The Township's general receipts are primarily property taxes and grants and entitlements. These receipts represent respectively 74 and 23 percent of the total general receipts. Property tax receipts for 2006 changed very little compared to 2005 as development within the Township stays consistent each year.
- The Township's major expenses are public works which consists mainly of repair and maintenance to the roadways. Public works represent 33 percent of the total expenditures for governmental activity during the year. An Ohio Public Works Commission Issue 2 grant provided funds for road paving in 2006.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the township's cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of Scott Township as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Scott Township as a way to segregate money whose use is restricted in a particular specified purpose. These statements present financial information by fund presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Township has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under Scott Township's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Township as a Whole

The statement of net assets and the statement of activities reflect how Scott Township did financially during 2006, with the limitations of modified cash basis accounting. The statement of net assets presents the cash balances of the governmental activities of the Township at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts, not classified as program receipts. The comparison of cash disbursements with program receipts identified how each governmental function draws from the Township's general receipts.

These statements report Scott Township's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure Scott Township's financial health. Over time, increases or decreases in Scott Township's cash position is one indicator of whether the Township's financial health is improving or deteriorating. When evaluating the Township's financial condition, you should also consider other non-financial factors as well, such as the Township's property tax base, the condition of the Township's capital assets and infrastructure, the extent of the Township's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the statement of net assets and the statement of activities, we report governmental activities which include the Township's basic services such as roads, fire, refuse and cemetery. State grants and entitlements and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Township's Most Significant Funds

Fund financial statements provide detailed information about the Township's major funds – not the Township as a whole. Scott Township establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Township are governmental funds.

The governmental fund financial statements provide a detailed view of the Township's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Township's programs. Scott Township's significant governmental funds are present on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Township's major governmental funds are the General Fund, Gasoline Tax Fund, Fire Special Levy Fund and Public Works Projects Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

The Township as a Whole

Table 1 provides a summary of the Township's net assets for 2006 compared to 2004 on a modified cash basis.

(Table 1)
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Cash and Cash Equivalents	\$37,797	\$65,496
Total Assets	\$37,797	\$65,496
Net Assets		
Restricted for:		
Other Purposes	\$28,276	\$33,906
Unrestricted	9,521	31,590
Total Net Assets	\$37,797	\$65,496

The net assets of governmental activities decreased \$27,699 or approximately 42 percent. The primary reasons contributing to the decrease in the cash balances was due to the General Fund received a large amount of estate tax in 2005, which was not realized in 2006. Estate tax is unpredictable and varies widely from year to year.

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

Table 2 reflects the changes in net assets on a modified cash basis in 2006 and 2005 for governmental activities.

(Table 2)
Change in Net Assets

	Governmental Activities	
	2006	2005
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$5,800	\$6,610
Operating Grants and Contributions	95,234	90,562
Capital Grants and Contributions	60,141	15,000
Total Program Receipts	161,175	112,172
General Receipts:		
Property and Other Local Taxes	127,417	127,250
Grants and Entitlements Not Restricted to Specific Programs	40,048	68,775
Earnings on Investments	558	758
Miscellaneous	3,135	4,785
Total General Receipts	171,158	201,568
Total Receipts	332,333	313,740
Disbursements:		
General Government	72,104	69,689
Public Safety	73,990	79,600
Public Works	119,059	89,316
Health	34,738	29,599
Capital Outlay	60,141	21,742
Total Disbursements	360,032	289,946
Change in Net Assets	(27,699)	23,794
Net Assets, January 1,	65,496	41,702
Net Assets, December 31,	\$37,797	\$65,496

Program receipts represent 48 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license, gas tax money, homestead and rollback grants, township levied motor vehicle license fees, and Issue 2 funds.

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

General receipts represent 52 percent of the Township's total receipts, and of this amount, over 74 percent are local taxes. State grants and entitlements make up most the balance of the Township's general receipts (23 percent). Other receipts are insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Township and the support services provided for the other Township activities. These include the costs of the board of trustees, fiscal officer, as well as internal services such as payroll and purchasing.

Public safety are the costs of fire protection. Health service is the contribution to the employee health insurance premiums and cemetery maintenance; Public Works is the cost of maintaining the roads; and Capital Outlay is the cost of road improvements.

Governmental Activities

If you look at the Statement of Activities you will see that the first column lists the major services provided by the Township. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for public works and public safety, which account for 33 and 21 percent of all governmental disbursements, respectively. General Government also represents a significant cost, about 20 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Township that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
General Government	\$72,104	\$72,104	\$69,689	\$69,689
Public Safety	73,990	73,990	79,600	79,600
Public Works	119,059	23,825	89,316	(1,246)
Health	34,738	28,938	29,599	22,989
Capital Outlay	60,141		21,742	6,742
Total Expenses	\$360,032	\$198,857	\$289,946	\$177,774

The dependence upon property tax receipts is apparent as 55 percent of governmental activities are supported through these general receipts.

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED
(Continued)**

The Township's Funds

Scott Township's total governmental funds had receipts of \$332,333 and disbursements of \$360,032. The greatest change within governmental funds occurred in the General Fund and the Gasoline Tax fund. The fund balance of the General Fund decreased (\$22,069) as a result of not receiving any estate tax receipts in 2006 and transferring funds to the Cemetery and Refuse funds for operating expenditures. The fund balance of the Gasoline Tax Fund decreased (\$5,845) as a result of large contract for road projects.

General Fund Budgeting Highlights

Scott Township's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The most significant budgeted fund is the General fund.

During 2006, final budgeted receipts increased over the original budgeted receipts. The difference between final budgeted receipts and actual receipts was \$29,984. The decrease was due to budgeting miscellaneous receipts which were not realized.

Final disbursements and other financing sources were budgeted at \$101,156 while actual disbursements and other financing sources were \$98,150, a difference of \$3,006. The appropriations were not increased and the Township kept spending very close to original budgeted amounts.

Current Issues

The challenge for all governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. Scott Township relies heavily on local taxes and has very little industry to support the tax base. The increase in the Gas tax over the last two years has helped significantly to keep the Township's finances in sound condition.

Contacting the Township's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the Township's finances and to reflect Scott Township's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Bonnie Findlay, Fiscal Officer, 2465 Co. Rd. 36, Kansas, Ohio 44841-9611.

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

*Statement of Net Assets - Modified Cash Basis
December 31, 2006*

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$37,797</u>
<i>Total Assets</i>	<u><u>\$37,797</u></u>
Net Assets	
Restricted for:	
Other Purposes	\$28,276
Unrestricted	<u>9,521</u>
<i>Total Net Assets</i>	<u><u>\$37,797</u></u>

See accompanying notes to the basic financial statements

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

*Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2006*

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental Activities					
General Government	\$72,104			(\$72,104)	
Public Safety	73,990			(73,990)	
Public Works	119,059		\$95,234	(23,825)	
Health	34,738	\$5,800		(28,938)	
Capital Outlay	60,141		\$60,141		
<i>Total Governmental Activities</i>	<u>\$360,032</u>	<u>\$5,800</u>	<u>\$95,234</u>	<u>\$60,141</u>	<u>(198,857)</u>
 General Receipts					
Property Taxes				127,417	
Grants and Entitlements				40,048	
Earnings on Investments				558	
Miscellaneous				3,135	
<i>Total General Receipts</i>				<u>171,158</u>	
Change in Net Assets				(27,699)	
<i>Net Assets Beginning of Year</i>				<u>65,496</u>	
<i>Net Assets End of Year</i>				<u>\$37,797</u>	

See accompanying notes to the basic financial statements

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

*Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2006*

	<u>General</u>	<u>Gasoline Tax</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$9,521	\$14,823	\$13,453	\$37,797
<i>Total Assets</i>	<u>\$9,521</u>	<u>\$14,823</u>	<u>\$13,453</u>	<u>\$37,797</u>
Fund Balances				
Unreserved:				
Undesignated, Reported in:				
General Fund	\$9,521			\$9,521
Special Revenue Funds		\$14,823	\$7,147	\$21,970
Permanent Funds			6,306	6,306
<i>Total Fund Balances</i>	<u>\$9,521</u>	<u>\$14,823</u>	<u>\$13,453</u>	<u>\$37,797</u>

See accompanying notes to the basic financial statements

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

*Statement of Modified Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2006*

	General	Gasoline Tax	Fire Special Levy	Public Works Projects	Other Governmental Funds	Total Governmental Funds
Receipts						
Property and Other Local Taxes	\$43,682		\$65,447		\$18,288	\$127,417
Charges for Services					3,300	3,300
Intergovernmental	30,408	\$81,542	8,543	\$60,141	14,789	195,423
Licenses, Permits and Fees	775				1,725	2,500
Earnings on Investments	166	319			73	558
Miscellaneous	1,050	85			2,000	3,135
<i>Total Receipts</i>	<u>76,081</u>	<u>81,946</u>	<u>73,990</u>	<u>60,141</u>	<u>40,175</u>	<u>332,333</u>
Disbursements						
Current:						
General Government	72,104					72,104
Public Safety			73,990			73,990
Public Works		87,791			31,268	119,059
Health	989				33,749	34,738
Capital Outlay				60,141		60,141
<i>Total Disbursements</i>	<u>73,093</u>	<u>87,791</u>	<u>\$73,990</u>	<u>\$60,141</u>	<u>65,017</u>	<u>360,032</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>2,988</u>	<u>(5,845)</u>			<u>(24,842)</u>	<u>(27,699)</u>
Other Financing Sources (Uses)						
Transfers In					25,057	25,057
Transfers Out	(25,057)					(25,057)
<i>Total Other Financing Sources (Uses)</i>	<u>(25,057)</u>				<u>25,057</u>	
<i>Net Change in Fund Balances</i>	(22,069)	(5,845)			215	(27,699)
<i>Fund Balances Beginning of Year</i>	<u>31,590</u>	<u>20,668</u>			<u>13,238</u>	<u>65,496</u>
<i>Fund Balances End of Year</i>	<u>\$9,521</u>	<u>\$14,823</u>			<u>\$13,453</u>	<u>\$37,797</u>

See accompanying notes to the basic financial statements

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Receipts				
Property and Other Local Taxes	\$45,363	\$45,363	\$43,682	(\$1,681)
Licenses, Permits and Fees	1,000	1,000	775	(225)
Intergovernmental	32,489	32,489	30,408	(2,081)
Earnings on Investments	200	276	166	(110)
Miscellaneous	26,937	26,937	1,050	(25,887)
<i>Total receipts</i>	<u>105,989</u>	<u>106,065</u>	<u>76,081</u>	<u>(29,984)</u>
Disbursements				
Current:				
General Government	64,890	64,890	72,104	(7,214)
Health	600	600	989	(389)
<i>Total Disbursements</i>	<u>65,490</u>	<u>65,490</u>	<u>73,093</u>	<u>(7,603)</u>
<i>Excess of Receipts Over Disbursements</i>	<u>40,499</u>	<u>40,575</u>	<u>2,988</u>	<u>(37,587)</u>
Other Financing Uses				
Transfers Out	(35,666)	(35,666)	(25,057)	10,609
<i>Net Change in Fund Balance</i>	4,833	4,909	(22,069)	48,196
<i>Fund Balance Beginning of Year</i>	<u>31,590</u>	<u>31,590</u>	<u>31,590</u>	
<i>Fund Balance End of Year</i>	<u><u>\$36,423</u></u>	<u><u>\$36,499</u></u>	<u><u>\$9,521</u></u>	<u><u>\$48,196</u></u>

See accompanying notes to the basic financial statements

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Gasoline Tax Fund
For the Year Ended December 31, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$94,329	\$98,381	\$81,542	(\$16,839)
Earnings on Investments	170	170	319	149
Miscellaneous			85	85
<i>Total receipts</i>	<u>94,499</u>	<u>98,551</u>	<u>81,946</u>	<u>(16,605)</u>
Disbursements				
Current:				
Public Works	<u>98,552</u>	<u>98,552</u>	<u>87,791</u>	<u>10,761</u>
<i>Net Change in Fund Balance</i>	(4,053)	(1)	(5,845)	(5,844)
<i>Fund Balance Beginning of Year</i>	<u>20,668</u>	<u>20,668</u>	<u>20,668</u>	
<i>Fund Balance End of Year</i>	<u><u>\$16,615</u></u>	<u><u>\$20,667</u></u>	<u><u>\$14,823</u></u>	<u><u>(\$5,844)</u></u>

See accompanying notes to the basic financial statements

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Fire Special Levy Fund
For the Year Ended December 31, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$65,609	\$65,609	\$65,447	(\$162)
Intergovernmental	7,500	7,500	8,543	1,043
<i>Total receipts</i>	73,109	73,109	73,990	881
Disbursements				
Current:				
Public Safety	72,609	72,609	\$73,990	(1,381)
<i>Net Change in Fund Balance</i>	500	500		(500)
<i>Fund Balance Beginning of Year</i>				
<i>Fund Balance End of Year</i>	\$500	\$500		(\$500)

See accompanying notes to the basic financial statements

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 1 – REPORTING ENTITY

Scott Township, Sandusky County, Ohio is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly elected three-member Board of Trustees. The Township also has an elected Township Fiscal Officer.

The reporting entity is comprised of the primary government.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Township. The Township provides general government services, maintenance of Township roads and bridges, and cemetery maintenance. The Township contracts with the Risingsun Volunteer Fire Department, Bradner Volunteer Fire Department, Helena Volunteer Fire Department and Kansas Volunteer Fire Department for fire protection. Police protection is provided by the Sandusky County Sheriff's Department.

B. Component Units

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs or services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Township is obligated for the debt of the organization. The Township is also financially accountable for any organizations that are fiscally dependent on the Township in that the Township approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Township, are accessible to the Township and are significant in amount to the Township.

Based on this criteria, the Township has no component units.

C. Public Entity Risk Pools

Scott Township is a member of OTARMA (Ohio Township Association Risk Management Authority). OTARMA provides our property and liability insurance coverage. Note 6 to the financial statements provide additional information for this entity.

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

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Township's accounting policies.

A. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the Township at year end. The statement of activities compares disbursements with program receipts for each of the Township's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Township is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational requirements of a particular program, and receipts of interest earned on grants that is required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the Township's general receipts.

Fund Financial Statements

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

B. Fund Accounting

The Township uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The funds of the Township are categorized as governmental.

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Governmental Funds

The Township classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Township's major governmental funds are as follows:

1. General Fund

The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

2. Gasoline Tax Fund

The Gasoline Tax Fund receives state fuel excise taxes to pay for constructing, maintaining, and repairing Township roads.

3. Fire Special Levy Fund

The Fire District Fund receives property tax monies for providing fire protection within the Township.

4. Public Works Projects Fund

The Public Works Projects Fund receives state Issue 2 funds to finance road projects.

The other governmental funds of the Township account for grants and other resources whose use is restricted to a particular purpose.

C. Basis of Accounting

The Township's financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the Township's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Township may appropriate.

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

The appropriations ordinance is the Township's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the Township. The legal level of control has been established at the fund, department, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Township Fiscal Officer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Township.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Township during the year.

E. Cash

To improve cash management, cash received by the Township is pooled and invested. Individual fund integrity is maintained through Township records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During 2006, the Township had no investments.

Interest earnings are allocated to Township funds according to State statutes or grant requirements. Interest receipts credited to the General Fund during 2006 was \$166 which includes \$82 assigned from other funds.

F. Inventory and Prepaid Items

The Township reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's modified cash basis of accounting.

I. Interfund Transactions

Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses.

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

J. Employer Contributions to Cost-Sharing Pension Plans

The Township recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. The employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for road, maintenance and repair, and fire protection.

The Township's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING

A. Budgetary Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund and any major special revenue fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. There are no differences between the budgetary basis and the modified cash basis in as much as the Township cancels outstanding year end encumbrances.

B. Compliance

Contrary to Ohio law, the Township did not properly certify all commitments.

NOTE 4 – DEPOSITS

Monies held by the Township are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Township treasury. Active monies must be maintained either as cash in the Township treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Trustees have identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 4 – DEPOSITS – (CONTINUED)

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Township can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Township, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

At year end, the Township had no undeposited cash on hand.

Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all Township deposits was \$37,797. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$100,000 the Township's bank balance of \$118,442 was covered by the Federal Deposit Insurance Corporation, and \$18,442 was exposed to custodial credit risk as discussed below.

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 4 – DEPOSITS – (CONTINUED)

Custodial credit risk is the risk that, in the event of bank failure, the Township's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Township.

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Township. Real property tax receipts received in 2006 represent the collection of 2005 taxes. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due Feb. 1; if paid semiannually, the first payment is due Feb. 1, with the remainder payable by July 1. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2006 represent the collection of 2005 taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2006 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory.

The full tax rate for all Township operations for the year ended December 31, 2006, was \$7.30 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	
Residential & Agricultural	\$ 19,734,230
Commercial/Industrial/Mineral	237,470
Tangible Personal Property	73,395
Public Utility	811,360
Total Assessed Value	<u>\$ 20,856,455</u>

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 6 – RISK MANAGEMENT

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

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

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006, OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust 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 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

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. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provide aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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.

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 6 – 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, 2006 and 2005.

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$32,031,312	\$30,485,638
Liabilities	<u>(11,443,952)</u>	<u>(12,344,576)</u>
Retained earnings	<u>\$20,587,360</u>	<u>\$18,141,062</u>
<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$10,010,963	\$9,177,796
Liabilities	<u>(676,709)</u>	<u>(1,406,031)</u>
Retained earnings	<u>\$9,334,254</u>	<u>\$7,771,765</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, 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 \$8,000. 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

2004	\$3,912
2005	\$3,803
2006	\$3,772

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 7 – DEFINED BENEFIT PENSION PLAN

A. Ohio Public Employees Retirement System

Scott Township participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2006, all OPERS enrollees of Scott Township were enrolled in the Traditional Plan. Enrollees are required to contribute 9 percent of their annual covered salaries. The Township's contribution rate for pension benefits for 2006 was 13.70 percent. Ohio Revised Code provides statutory authority for member and employer contributions.

The Township's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004, were \$8,462 \$8,460, and \$7,559 respectively. The full amount has been contributed for 2006, 2005, and 2004.

NOTE 8 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.70 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

**SCOTT TOWNSHIP
SANDUSKY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)**

NOTE 8 - POSTEMPLOYMENT BENEFITS – (CONTINUED)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between .50 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional plan for Scott Township was 369,214. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$9,775. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

NOTE 9 - INTERFUND TRANSFERS

During 2006 transfers were made from the General Fund to Other Governmental Funds in the amount of \$25,057. Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.



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*

Scott Township
Sandusky County
2465 County Road 36
Kansas, Ohio 44841-9611

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Scott Township, Sandusky County (the Township) as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements and have issued our report thereon dated June 19, 2007, where in we noted that the Township prepared its financial statements on the modified cash basis of accounting. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

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.

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www.auditor.state.oh.us

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. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated June 19, 2007.

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 that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

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 19, 2007.

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

June 19, 2007

SCOTT TOWNSHIP
SANDUSKY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006

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

FINDING NUMBER 2006-001

Noncompliance Citation

Ohio Revised 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 encumbrances. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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 §§ 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 Board can authorize the drawing of a warrant for the payment of the amount due. The Board 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 Board.

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 Board 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.

**FINDING NUMBER 2006-001
(Continued)**

Twenty seven percent of the transactions tested 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.

Certification is not only required by Ohio law but is a key control in the disbursements process to help assure purchase commitments receive prior approval, and to help reduce the possibility of Township funds being over expended or exceeding budgetary spending limitations as set by the Board. To improve controls over disbursements, we recommend all Township disbursements received prior certification of the Fiscal Officer and the Board periodically review the expenditures made to ensure they are within the appropriations adopted by the Board, certified by the Fiscal Officer, and recorded against appropriations.

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

SCOTT TOWNSHP
SANDUSKY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Ohio Revised Code § 5705.41(D), Failure to certify disbursements.	No	Not corrected. Repeated as Finding Number 2006-001.



Mary Taylor, CPA
Auditor of State

SCOTT TOWNSHIP

SANDUSKY 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, 2007**