



**HOWARD TOWNSHIP
KNOX COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2007- 2006



Mary Taylor, CPA
Auditor of State

HOWARD TOWNSHIP
KNOX COUNTY

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Mary Taylor, CPA
Auditor of State

Howard Township
Knox County
P.O. Box 266
Howard, Ohio 43028

To the Board of Trustees:

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 16, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Howard Township
Knox County
P.O. Box 266
Howard, Ohio 43028

To the Board of Trustees:

We have audited the accompanying financial statements of Howard Township, Knox County, Ohio, (the Township) as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the 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, 2007 and 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2007 and 2006, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Howard Township, Knox County, Ohio, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1, for the year ended December 31, 2006, the Township changed its financial presentation method to conform to presentation methods the Auditor of State prescribes or permits.

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 July 16, 2008, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

July 16, 2008

**HOWARD TOWNSHIP
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property and Other Local Taxes	\$ 52,827	\$ 223,430	\$ 17,000	\$ 293,257
Licenses, Permits, and Fees	31,512	-	-	31,512
Intergovernmental	81,101	317,940	-	399,041
Special Assessments	-	2,812	-	2,812
Earnings on Investments	4,451	4,101	-	8,552
Miscellaneous	4,797	4,708	-	9,505
Total Cash Receipts	<u>174,688</u>	<u>552,991</u>	<u>17,000</u>	<u>744,679</u>
Cash Disbursements:				
Current:				
General Government	233,545	-	-	233,545
Public Works	9,537	358,814	-	368,351
Capital Outlay	218,686	-	-	218,686
Debt Service:	-	-	-	-
Redemption of Principal	-	-	15,019	15,019
Interest and Other Fiscal Charges	250	-	1,293	1,543
Total Cash Disbursements	<u>462,018</u>	<u>358,814</u>	<u>16,312</u>	<u>837,144</u>
Total Receipts Over/(Under) Disbursements	<u>(287,330)</u>	<u>194,177</u>	<u>689</u>	<u>(92,464)</u>
Other Financing Receipts:				
Sale of Bonds	<u>71,250</u>	<u>-</u>	<u>-</u>	<u>71,250</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements	(216,080)	194,177	689	(21,215)
Fund Cash Balances, January 1	<u>265,597</u>	<u>333,942</u>	<u>1,571</u>	<u>601,110</u>
Fund Cash Balances, December 31	<u>\$ 49,517</u>	<u>\$ 528,119</u>	<u>\$ 2,260</u>	<u>\$ 579,895</u>

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

**HOWARD TOWNSHIP
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property and Other Local Taxes	\$ 51,201	\$ 218,242	\$ 17,000	\$ 286,443
Licenses, Permits, and Fees	56,449	-	-	56,449
Intergovernmental	117,202	171,696	-	288,898
Special Assessments	-	2,941	-	2,941
Earnings on Investments	5,282	2,781	-	8,063
Miscellaneous	2,062	1,002	-	3,064
	<u>232,196</u>	<u>396,662</u>	<u>17,000</u>	<u>645,858</u>
Total Cash Receipts				
	232,196	396,662	17,000	645,858
Cash Disbursements:				
Current:				
General Government	220,613	-	-	220,613
Public Works	3,552	394,585	-	398,137
Health	3,000	-	-	3,000
Capital Outlay	15,580	-	-	15,580
Debt Service:	-	-	-	-
Redemption of Principal	-	-	14,347	14,347
Interest and Other Fiscal Charges	-	-	1,965	1,965
	<u>242,745</u>	<u>394,585</u>	<u>16,312</u>	<u>653,642</u>
Total Cash Disbursements				
	242,745	394,585	16,312	653,642
Total Receipts Over/(Under) Disbursements	<u>(10,549)</u>	<u>2,077</u>	<u>688</u>	<u>(7,784)</u>
Fund Cash Balances, January 1	276,146	331,865	883	608,894
Fund Cash Balances, December 31	<u>\$ 265,597</u>	<u>\$ 333,942</u>	<u>\$ 1,571</u>	<u>\$ 601,110</u>

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

**HOWARD TOWNSHIP
KNOX COUNTY**

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

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Howard Township, Knox 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 governmental services, including road and bridge maintenance, cemetery maintenance, and street light maintenance. The Township contracts with the Eastern Knox County Joint Fire District to provide fire protection services. The Knox County Sheriffs Office provides general police patrol.

The Township participates in one jointly governed organization and the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Notes 7 and 8 to the financial statements provides additional information for these entities.

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

B. Accounting Basis

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

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

C. Cash and Investments

The Township's maintains an interest bearing checking account and a money market account.

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.

**HOWARD TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(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 private-purpose 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.

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

3. Debt Service Fund

This fund accounts for resources the Township accumulates to pay bond and note debt. The Township had the following Debt Service Fund:

General Bond Retirement Fund – This fund receives property tax money to pay for the retirement of debt principal and interest related to a road equipment purchase.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

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

**HOWARD TOWNSHIP
KNOX COUNTY**

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

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

	2007	2006
Demand deposits	\$579,895	\$601,110

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

3. Budgetary Activity

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

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$301,398	\$245,938	(\$55,460)
Special Revenue	473,624	552,991	79,367
Debt Service	17,000	17,000	0
Total	\$792,022	\$815,929	\$23,907

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$566,985	\$462,018	\$104,967
Special Revenue	807,566	358,814	448,752
Debt Service	18,571	16,312	2,259
Total	\$1,393,122	\$837,144	\$555,978

**HOWARD TOWNSHIP
KNOX COUNTY**

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

3. Budgetary Activity (Continued)

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$205,315	\$232,196	\$26,881
Special Revenue	297,362	396,662	99,300
Debt Service	17,000	17,000	0
Total	\$519,677	\$645,858	\$126,181

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$481,461	\$242,745	\$238,716
Special Revenue	629,227	394,585	234,642
Debt Service	17,883	16,312	1,571
Total	\$1,128,571	\$653,642	\$474,929

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

5. Debt

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
Equipment Note	\$15,645	4.25%
Real Estate Acquisition Bond	71,250	4.90%
Total	\$86,895	

The Township entered into debt in 2005 for the purchase of equipment. This note is solely collateralized by this equipment and will mature in 2008.

The Real Estate Bond was issued for the purpose of acquiring real property located at 12637 Cotton Street, Howard, Ohio 43028. Installments mature on or before May 15, 2013. The bond is solely collateralized by the real property.

**HOWARD TOWNSHIP
KNOX COUNTY**

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

5. Debt (Continued)

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

Year ending December 31:	Equipment Note	Real Estate Acquisition Bond
2008	\$16,311	\$8,359
2009	0	16,718
2010	0	16,718
2011	0	16,718
2012	0	16,718
2013	0	8,359
Total	\$16,311	\$83,590

6. Retirement System

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple employer plan. The Ohio Revised Code prescribes this plan benefits, which include post retirement healthcare and survivor and disability benefits.

Contribution rates are also prescribed by the Ohio Revised Code. For 2007 and 2006, OPERS members contributed 9.5 and 9%, respectively, of their gross salaries and the Township contributed an amount equaling 13.85 and 13.7%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

7. Risk Management

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

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

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.

**HOWARD TOWNSHIP
KNOX COUNTY**

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

7. Risk Management (Continued)

Casualty Coverage

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

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

The aforementioned casualty and property reinsurance agreements do not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006.

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

**HOWARD TOWNSHIP
KNOX COUNTY**

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

7. Risk Management (Continued)

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$6,060. 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.

<u>Contributions to OTARMA</u>	
2005	\$7,141
2006	\$7,766
2007	\$6,447

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they provide written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

8. Jointly Governed Organizations

The Eastern Knox County Joint Fire District (The District) is a jointly governed organization pursuant to Ohio Revised Code section 505.371. The District was formed in 2001 and consists of Brown, Butler, Harrison, Howard, Jefferson, and Union Townships and the Villages of Brinkhaven and Danville. The Board consists of a trustee from each township and village and an at large member appointed by the District Board. In 2003, Howard Township signed a lease with the District for Fire House #2 for a term of 25 years. The Lessee agrees to pay to the Lessor for said premises the sum of \$1.00 per year.

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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*

Howard Township
Knox County
P.O. Box 266
Howard, Ohio 43028

To the Board of Trustees:

We have audited the financial statements of Howard Township, Knox County, Ohio, (the Township) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated July 16, 2008, wherein we noted the Township changed their financial presentation for the year ended December 31, 2006 and prepared its financial statements using accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 of Ohio Revised Code §117.101 requires the Auditor of State to provide UAN services, and the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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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We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-002

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weakness. However, we believe finding number 2007-002 is also a material weakness.

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 matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-001.

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Township's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

July 16, 2008

HOWARD TOWNSHIP
KNOX COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006

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

FINDING NUMBER 2007- 001

Health Care Reimbursement – Finding for Recovery

Ohio Rev. Code Section 505.60 states, in pertinent part:

(A) As provided in this section and section 505.601 of the Revised Code, the board of township trustees of any township may procure and pay all or any part of the cost of insurance policies that may provide benefits for hospitalization, surgical care, major medical care, disability, dental care, eye care, medical care, hearing aids, prescription drugs, or sickness and accident insurance, or a combination of any of the foregoing types of insurance for township officers and employees. The board of township trustees of any township may negotiate and contract for the purchase of a policy of long-term care insurance for township officers and employees pursuant to section 124.841 of the Revised Code.

(B) If the board procures any insurance policies under this section, the board shall provide uniform coverage under these policies for township officers and full-time township employees and their immediate dependents, and may provide coverage under these policies for part-time township employees and their immediate dependents, from the funds or budgets from which the officers or employees are compensated for services, such policies to be issued by an insurance company duly authorized to do business in this state. Any township officer or employee may refuse to accept the insurance coverage without affecting the availability of such insurance coverage to other township officers and employees.

(C) If any township officer or employee is denied coverage under a health care plan procured under division (B) of this section or if any township officer or employee elects not to participate in the township's health care plan, the township may reimburse the officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of this section that the officer or employee otherwise obtains, but not to exceed an amount equal to the average premium paid by the township for its officers and employees under policies it procures under division (B) of this section.

R.C. 505.60 allows reimbursement for the out of pocket costs incurred by an officer or employee that are associated with obtaining coverage for policies described in R.C. 505.60(A). It does not, however, extend such reimbursement to family policies described in section 505.60(B).

2005 Op. Att'y Gen. No. 2005-038 determined that township officers and employees could be reimbursed for out-of-pocket premium expenses attributable to an officer/employee that are obtained through a spouse's employer. However, the reimbursement through a spouse's plan is limited to the "out-of-pocket premium that the officer or employee incurs", because the policies described in 505.60(A) do not include family coverage. Therefore, the Township cannot reimburse for premium costs attributable to the spouse or dependents. There is no authority, statutory or otherwise, for reimbursement of the premium costs attributable to an officer/employee's spouse or dependents.

The Township mistakenly believed that it could reimburse its officers/employees for the entire out of pocket premium associated with family coverage. As stated above, a township may only reimburse an officer/employee for the premium attributable to that officer/employee.

**HOWARD TOWNSHIP
KNOX COUNTY**

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

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

**FINDING NUMBER 2007- 001
(Continued)**

Health Care Reimbursement (Continued)

The Township reimbursed Ron E. Simpson, Township Trustee for the entire out of pocket premium for family health care coverage. This reimbursement should have only been for the out of pocket premium related to Ron E. Simpson. The estimated cost was based on review of the ratio of single versus family coverage for other Township Officials' and employees. These warrants were signed by Carol Gilmore, Fiscal Officer, and Township Trustees Clarence Griffith, Ron E. Simpson and Paul Chapman.

	2006		
<u>Individual</u>	<u>Total Reimbursed</u>	<u>Total Allowed</u>	<u>Overpayment</u>
R. Simpson	\$ 1,833	\$ 828	\$ 1,005

	2007		
<u>Individual</u>	<u>Total Reimbursed</u>	<u>Total Allowed</u>	<u>Overpayment</u>
R. Simpson	\$ 1,833	\$ 828	\$ 1,005

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 Ohio St. 3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is issued against Ron E. Simpson, Township Trustee, Carol Gilmore, Fiscal Officer, Clarence Griffith, Township Trustee, Paul Chapman, Township Trustee, and the Trustees' and Fiscal Officer's bonding company, the Ohio Township Risk Management Authority, jointly and severally, in the amount of \$2,010, and in favor of Howard Township's General Fund.

Clarence Griffith, Paul Chapman, and Carol Gilmore shall be secondarily liable for such illegal expenditures to be extent that recovery or restitution is not obtained from Ron E. Simpson, Township Trustee.

Official's Response:

Howard Township continues to monitor pending legislation on this insurance issue.

HOWARD TOWNSHIP
KNOX COUNTY

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

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

FINDING NUMBER 2007- 002

Financial Statement Presentation – Significant Deficiency/ Material Weakness

A monitoring system by the Township should be in place to prevent or detect material misstatements for the accurate presentation of the Township's financial statements.

The Fiscal Officer did not always accurately post receipts to the Township's accounting system. The following posting errors were noted:

- Intergovernmental receipts were posted to Taxes in error (\$8,862 in the General Fund, \$28,224 in the Road and Bridge Fund, and \$23,919 in the Permissive Motor Vehicle License in 2007; \$24,076 in the Permissive Motor Vehicle License in 2006).
- Intergovernmental receipts were posted to Miscellaneous Receipts in error in the Road and Bridge Fund (\$86,470 in 2007).
- Licenses, Permits & Fees were posted as Miscellaneous Receipts in error in the General Fund (\$4,821 in 2007; \$17,106 in 2006).
- Sale of Bonds were posted to Miscellaneous in error in the General Fund (\$71,250 in 2007).

Not posting receipts accurately to the ledgers resulted in the financial statements requiring reclassification entries.

We recommend the Township's Fiscal Officer take steps to ensure the accurate posting of all transactions. Cash receipts should be posted in accordance with procedures and posting guidelines established in the Uniform Accounting Network line item descriptions. By exercising accuracy in recording financial activity, The Township can reduce posting errors and increase the reliability of the financial data throughout the year.

We also recommend the Township implement additional procedures over the completeness and accuracy of financial information reported within the annual financial report. Such procedures may include review of the financial statements and related components with analytical comparisons of the current year annual report to the prior year reports for obvious errors or omissions.

The Township's financial statements have been adjusted to accurately reflect the proper line item classifications.

Official's Response:

Fiscal Officer will review UAN guidelines and establish additional accounts to post transactions in accordance with requirements.



Mary Taylor, CPA
Auditor of State

HOWARD TOWNSHIP

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 21, 2008**