



Mary Taylor, CPA
Auditor of State

**PENN TOWNSHIP
HIGHLAND COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
2006 Government-wide Financial Statements:	
Statement of Net Assets – Cash Basis as of December 31, 2006.....	9
Statement of Activities – Cash Basis For the Year Ended December 31, 2006	10
2006 Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances –Governmental Funds as of December 31, 2006	11
Statement of Cash Receipts, Disbursements, and Changes In Cash Basis Fund Balances – Governmental Funds For the Year Ended December 31, 2006	12
Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis – General Fund For the Year Ended December 31, 2006	13
Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis – Gasoline Tax Fund For the Year Ended December 31, 2006	14
2005 Government-wide Financial Statements:	
Statement of Net Assets – Cash Basis as of December 31, 2005.....	15
Statement of Activities – Cash Basis For the Year Ended December 31, 2005	16
2005 Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances –Governmental Funds as of December 31, 2005	17
Statement of Cash Receipts, Disbursements, and Changes In Cash Basis Fund Balances – Governmental Funds For the Year Ended December 31, 2005	18
Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis – General Fund For the Year Ended December 31, 2005	19

**PENN TOWNSHIP
HIGHLAND COUNTY**

**TABLE OF CONTENTS
(Continued)**

TITLE	PAGE
Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis – Gasoline Tax Fund For the Year Ended December 31, 2005	20
Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis – Road and Bridge Fund For the Year Ended December 31, 2006	21
Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis – Fire Levy Fund For the Year Ended December 31, 2005	22
Notes to the Financial Statements	23
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	33



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Penn Township
Highland County
10005 U.S. Route 62
Leesburg, Ohio 45135

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 Penn Township, Highland County, Ohio (the Township), as of and for the year ended December 31, 2006 and 2005, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government'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. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the accompanying financial statements and notes follow the 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 cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Penn Township, Highland County, Ohio, as of December 31, 2006 and 2005, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund and Gasoline Tax Fund for the year ended December 31, 2006, and for the General Fund, Gasoline Tax Fund, Road and Bridge Fund, and Fire Levy Fund, thereof for the year ended December 31, 2005 in conformity with the basis of accounting Note 2 describes.

For the years ended December 31, 2006 and 2005, the Government revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2007, on our consideration of the Government'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 the Governmental Accounting Standards Board 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.

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

Mary Taylor, CPA
Auditor of State

July 11, 2007

PENN TOWNSHIP
HIGHLAND COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Unaudited)

This discussion and analysis of Penn Township's financial performance provides an overall review of the Township's financial activities for the years ended December 31, 2006 and 2005, 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 and 2005 are as follows:

In 2006, the Township's net assets increased \$43,182 or 12% over 2005. The Township received a \$32,374 estate tax settlement and the Township invested money in a certificate of deposit at a higher interest rate than in past years. Also in 2006 the Township purchased a truck and snow plow from the Gasoline Tax Fund for \$27,500, and the old truck was sold for \$5,675.

A Federal Emergency Management Agency (FEMA) grant was received in 2005 in the amount of \$2,753 to defray the cost related to the ice storm in late 2004.

The Township's general receipts are primarily property and sales tax. During 2006 and 2005 these receipts represented 51% and 75% respectively of the total cash received for governmental activities. Property tax receipts for 2006 and 2005 changed very little compared to 2004 as property values showed only moderate increases. The Township's program receipts are primarily excise gas tax and permissive motor vehicle license tax. Excise tax receipts related to fuel sales increased \$8,968 or 12% in 2006 over 2005. Permissive motor vehicle license tax levied by the township for 2006 and 2005 remained fairly consistent.

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 modified cash basis of accounting.

Report Components

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

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Township as a way to segregate money whose use is restricted to 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.

PENN TOWNSHIP
HIGHLAND COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Unaudited)

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 cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Township's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the 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 cash basis of accounting.

Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the Township did financially during 2006 and 2005, within the limitations of 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 identifies how each governmental function draws from the Township's general receipts.

These statements report the Township's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Township's financial health. Over time, increases or decreases in the 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 nonfinancial factors as well such as the Township's property tax base, the condition of the Township's capital assets, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and sales taxes.

Reporting the Government's Most Significant Funds

Fund financial statements provide detailed information about the Township's major funds – not the Township as a whole. The 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 Township's activities are reported in 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. The Township's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor 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

PENN TOWNSHIP
HIGHLND COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Unaudited)

General Fund and Gas Fund in 2006 and the General Fund, Gas Fund, Road & Bridge Fund, and Fire Fund in 2005. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

The Government as a Whole

Table 1 provides a summary of the Township's net assets for 2006 and 2005 on a cash basis:

(Table 1)
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Cash and Cash Equivalents	\$ 408,476	\$ 365,294
Total Assets	\$ 408,476	\$ 365,294
Net Assets		
Restricted for:		
Other Purposes	265,438	259,054
Unrestricted	143,038	106,240
Total Net Assets	\$408,476	\$365,294

As mentioned previously, net assets of governmental activities increased \$43,182 or 12% during 2006. The primary reason contributing to the increase in cash balances is as follows:

- In 2006, the Township received a \$32,374 estate tax settlement and the Township invested money in a certificate of deposit at a higher interest rate than in past years.
- A Federal Emergency Management Agency (FEMA) grant was received in 2005 in the amount of \$2,753 to defray the cost related to an ice storm in late 2004.

Table 2 reflects the changes in net assets in 2006 and 2005.

PENN TOWNSHIP
HIGHLND COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Unaudited)

(Table 2)
Changes in Net Assets

	Governmental Activities 2006	Governmental Activities 2005	Variance
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$16,540	\$13,829	\$2,711
Operating Grants and Contributions	102,823	100,794	2,029
Total Program Receipts	<u>119,363</u>	<u>114,623</u>	4,740
General Receipts:			
Property and Other Local Taxes	45,690	46,842	(1,152)
Grants and Entitlements Not Restricted to Specific Programs	52,885	28,119	24,766
Interest	15,203	2,677	12,526
Sale of Capital Assets	5,675	0	
Miscellaneous	48	11	37
Total General Receipts	<u>119,501</u>	<u>77,649</u>	36,177
Total Receipts	<u>238,864</u>	<u>192,272</u>	40,917
Disbursements:			
General Government	45,324	42,335	2,989
Public Safety	12,780	12,836	(56)
Public Works	99,959	102,608	(2,649)
Health	10,119	9,075	1,044
Capital Outlay	27,500	862	26,638
Total Disbursements	<u>195,682</u>	<u>167,716</u>	27,966
Increase (Decrease) in Net Assets	43,182	24,556	12,951
Net Assets, Beginning of Year	<u>365,294</u>	<u>340,738</u>	24,556
Net Assets, End of Year	<u>\$408,476</u>	<u>\$365,294</u>	\$37,507

In 2006, Program receipts represent 50% of total receipts. In 2005, Program receipts represent 60% of total receipts. Program receipts are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money.

In 2006, General receipts represent 50% of the Township's total receipts, and of this amount, 38% are local taxes and 44% are state and federal grants and entitlements. Interest, sale of capital assets, and miscellaneous make of the balance of the Township's general receipts (18%). In 2005, General receipts represent 60% of the Township's total receipts. Of this amount, 60% are local taxes and 36% are state and federal grants and entitlements. Interest makes up the balance of the Township's general receipts (4%). Other receipts in 2005 are very insignificant.

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 official's salaries and benefits, Township hall maintenance and utilities. Public Safety are the costs of providing fire protection to the residents of the Township which is contracted on an annual basis with the City of

PENN TOWNSHIP
HIGHLAND COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Unaudited)

Hillsboro and the Highland North Joint Fire and Ambulance District. Health costs are the property tax deductions to the county health department, and maintenance cost of the cemeteries. Public Works are the costs of maintaining the roads.

Governmental Activities

If you look at the Statement of Activities on page 10 and 20, 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 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 Government 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	Net Cost of Services	Total Cost Of Services	Net Cost of Services
	2006	2006	2005	2005
General Government	\$ 45,324	\$ (45,335)	\$ 42,335	\$ (42,335)
Public Safety	12,780	(12,780)	12,836	(12,836)
Public Works	99,959	12,304	102,608	7,390
Health	10,119	(3,019)	9,075	(4,450)
Capital Outlay	27,500	(27,500)	862	(862)
Total Expenses	\$ 195,682	\$ (76,330)	\$ 167,716	\$ (53,093)

The dependence upon property and income tax receipts is apparent as over 39%, in 2006, and 32%, in 2005, of governmental activities are supported through these general receipts.

The Government's Funds

In 2006, total governmental funds had receipts of \$238,865 and disbursements of \$195,682. In 2005, total governmental funds had receipts of \$192,272 and disbursements of \$167,716. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$50,386 or 54% as a result of an increase in Taxes and Intergovernmental receipts.

General Fund Budgeting Highlights

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

PENN TOWNSHIP
HIGHALND COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Unaudited)

General Fund receipts received in 2006 were \$40,759 greater than was budgeted and were \$17,068 greater than was budgeted in 2005. The Township did not amend its General Fund budget to reflect the increase of receipts.

In 2006, final disbursements were budgeted at \$138,500, while actual disbursements were \$50,474. In 2005, final disbursements were budgeted at \$134,500, while actual disbursements were \$47,660. The Township kept spending below budgeted amounts as demonstrated by the reported variances..

Capital Assets and Debt Administration

Capital Assets

The Township does not report capital assets under the modified cash basis of accounting.

Debt

The Township had no debt during the period January 1, 2005 through December 31, 2006.

Contacting the Government's Financial Management

This financial report is designed to provide our citizens, taxpayers, legislative bodies, and management with a general overview of the Township's finances and to reflect the 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 Philip Davis, Fiscal Officer, Penn Township, 8860 Grimsley Road, Leesburg, Ohio 45135.

PENN TOWNSHIP, HIGHLAND COUNTY
STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2006

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$408,476</u>
<i>Total Assets</i>	<u><u>\$408,476</u></u>
Net Assets	
Restricted for:	
Other Purposes	\$265,438
Unrestricted	<u>143,038</u>
<i>Total Net Assets</i>	<u><u>\$408,476</u></u>

See accompanying notes to the basic financial statements

PENN TOWNSHIP
HIGHLAND COUNTY
STATEMENT OF ACTIVITIES - 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
			Total Governmental Activities
Governmental Activities			
General Government	\$45,324		(\$45,324)
Public Safety	12,780		(12,780)
Public Works	99,959	9,440	12,304
Health	10,119	7,100	(3,019)
Capital Outlay	27,500		(27,500)
<i>Total Governmental Activities</i>	<u>\$195,682</u>	<u>\$16,540</u>	<u>\$102,823</u>
			(76,319)
General Receipts			
Property Taxes Levied for:			
General Purposes			30,854
Roads			7,731
Fire Protection			7,105
Grants and Entitlements not Restricted to Specific Programs			52,885
Sale of Capital Assets			5,675
Interest			15,202
Miscellaneous			49
<i>Total General Receipts</i>			119,501
Change in Net Assets			43,182
<i>Net Assets Beginning of Year</i>			365,294
<i>Net Assets End of Year</i>			<u>\$408,476</u>

See accompanying notes to the basic financial statements

**PENN TOWNSHIP
HIGHLAND COUNTY**
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General	Gasoline Tax Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$143,038	\$129,416	\$136,022	\$408,476
<i>Total Assets</i>	<u>\$143,038</u>	<u>\$129,416</u>	<u>\$136,022</u>	<u>\$408,476</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$3,050	\$4,900		\$7,950
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	139,988			139,988
Special Revenue Funds		124,516	136,022	260,538
<i>Total Fund Balances</i>	<u>\$143,038</u>	<u>\$129,416</u>	<u>\$136,022</u>	<u>\$408,476</u>

See accompanying notes to the basic financial statements

**PENN TOWNSHIP
HIGHLAND COUNTY**
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	General	Gasoline Tax Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$30,854		\$14,836	\$45,690
Charges for Services			16,540	16,540
Intergovernmental	50,590	86,201	18,917	155,708
Interest	5,779	6,688	2,735	15,202
Other	49			49
<i>Total Receipts</i>	<u>87,272</u>	<u>92,889</u>	<u>53,028</u>	<u>233,189</u>
Disbursements				
Current:				
General Government	45,324			45,324
Public Safety	211		12,569	12,780
Public Works		64,741	35,218	99,959
Health	4,939		5,180	10,119
Capital Outlay		27,500		27,500
<i>Total Disbursements</i>	<u>50,474</u>	<u>92,241</u>	<u>52,967</u>	<u>195,682</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>36,798</u>	<u>648</u>	<u>61</u>	<u>37,507</u>
Other Financing Sources				
Sale of Capital Assets		5,675		5,675
<i>Total Other Financing Sources</i>	<u>0</u>	<u>5,675</u>	<u>0</u>	<u>5,675</u>
<i>Net Change in Fund Balances</i>	36,798	6,323	61	43,182
<i>Fund Balances Beginning of Year</i>	<u>106,240</u>	<u>123,093</u>	<u>135,961</u>	<u>365,294</u>
<i>Fund Balances End of Year</i>	<u>\$143,038</u>	<u>\$129,416</u>	<u>\$136,022</u>	<u>\$408,476</u>

See accompanying notes to the basic financial statements

PENN TOWNSHIP
HIGHLAND COUNTY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$26,053	\$26,053	\$30,854	\$4,801
Intergovernmental	18,346	18,346	50,590	32,244
Interest	2,096	2,096	5,779	3,683
Other	18	18	49	31
<i>Total Receipts</i>	46,513	46,513	87,272	40,759
Disbursements				
Current:				
General Government	76,000	76,000	45,324	30,676
Public Safety	1,000	1,000	211	789
Public Works	15,000	15,000	0	15,000
Health	31,500	31,500	4,939	26,561
Capital Outlay	15,000	15,000	0	15,000
<i>Total Disbursements</i>	138,500	138,500	50,474	88,026
<i>Excess of Receipts Over (Under) Disbursements</i>	(91,987)	(91,987)	36,798	128,785
<i>Fund Balance Beginning of Year</i>	106,240	106,240	106,240	0
<i>Fund Balance End of Year</i>	\$14,253	\$14,253	\$143,038	\$128,785

See accompanying notes to the basic financial statements

PENN TOWNSHIP, HIGHLAND 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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	68,000	68,000	86,201	18,201
Interest	3,300	3,300	6,688	3,388
Other	200	200	0	(200)
<i>Total Receipts</i>	71,500	71,500	92,889	21,389
Disbursements				
Current:				
Public Works	145,000	145,000	64,741	80,259
Capital Outlay	30,000	30,000	27,500	2,500
<i>Total Disbursements</i>	175,000	175,000	92,241	82,759
<i>Excess of Receipts Over (Under) Disbursements</i>	(103,500)	(103,500)	648	104,148
Other Financing Sources				
Sale of Capital Assets	0	0	5,675	5,675
<i>Total Other Financing Sources</i>	0	0	5,675	5,675
<i>Net Change in Fund Balance</i>	(103,500)	(103,500)	6,323	109,823
<i>Fund Balance Beginning of Year</i>	123,093	123,093	123,093	0
<i>Fund Balance End of Year</i>	\$19,593	\$19,593	\$129,416	\$109,823

See accompanying notes to the basic financial statements

PENN TOWNSHIP, HIGHLAND COUNTY
STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$365,294</u>
<i>Total Assets</i>	<u><u>\$365,294</u></u>
Net Assets	
Restricted for:	
Other Purposes	\$259,054
Unrestricted	<u>106,240</u>
<i>Total Net Assets</i>	<u><u>\$365,294</u></u>

See accompanying notes to the basic financial statements

**PENN TOWNSHIP
HIGHLAND COUNTY**
STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Total Governmental Activities
Governmental Activities				
General Government	\$42,335			(\$42,335)
Public Safety	12,836			(12,836)
Public Works	102,608	9,204	100,794	7,390
Health	9,075	4,625		(4,450)
Capital Outlay	862			(862)
<i>Total Governmental Activities</i>	<u>\$167,716</u>	<u>\$13,829</u>	<u>\$100,794</u>	<u>(53,093)</u>
General Receipts				
Property Taxes Levied for:				
General Purposes				32,042
Roads				8,033
Fire Protection				6,767
Grants and Entitlements not Restricted to Specific Programs				28,119
Interest				2,677
Miscellaneous				11
<i>Total General Receipts</i>				77,649
Change in Net Assets				24,556
<i>Net Assets Beginning of Year</i>				<u>340,738</u>
<i>Net Assets End of Year</i>				<u>\$365,294</u>

See accompanying notes to the basic financial statements

**PENN TOWNSHIP
HIGHLAND COUNTY**
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	General	Gasoline Tax Fund	Road & Bridge Fund	Fire Levy Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$81,240	\$98,093	\$37,704	\$40,324	\$57,933	\$315,294
Investments	25,000	25,000				50,000
<i>Total Assets</i>	<u>\$106,240</u>	<u>\$123,093</u>	<u>\$37,704</u>	<u>\$40,324</u>	<u>\$57,933</u>	<u>\$365,294</u>
Fund Balances						
Reserved:						
Reserved for Encumbrances	\$2,400					\$2,400
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	103,840					103,840
Special Revenue Funds		123,093	37,704	40,324	57,933	259,054
<i>Total Fund Balances</i>	<u>\$106,240</u>	<u>\$123,093</u>	<u>\$37,704</u>	<u>\$40,324</u>	<u>\$57,933</u>	<u>\$365,294</u>

See accompanying notes to the basic financial statements

PENN TOWNSHIP
HIGHLAND COUNTY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	General	Gasoline Tax Fund	Road & Bridge Fund	Fire Levy Fund	Other Governmental Funds	Total Governmental Funds
Receipts						
Property and Other Local Taxes	\$32,042		\$8,033	\$6,767	\$0	\$46,842
Charges for Services					13,829	13,829
Intergovernmental	26,518	77,233	682	919	19,003	124,355
Interest	2,677	3,256			1,302	7,235
Other	11				0	11
<i>Total Receipts</i>	<u>61,248</u>	<u>80,489</u>	<u>8,715</u>	<u>7,686</u>	<u>34,134</u>	<u>192,272</u>
Disbursements						
Current:						
General Government	42,335					42,335
Public Safety	211			12,625		12,836
Public Works		69,607	10,248		22,753	102,608
Health	5,114				3,961	9,075
Capital Outlay		862				862
<i>Total Disbursements</i>	<u>47,660</u>	<u>70,469</u>	<u>10,248</u>	<u>12,625</u>	<u>26,714</u>	<u>167,716</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>13,588</u>	<u>10,020</u>	<u>(1,533)</u>	<u>(4,939)</u>	<u>7,420</u>	<u>24,556</u>
<i>Net Change in Fund Balances</i>	13,588	10,020	(1,533)	(4,939)	7,420	24,556
<i>Fund Balances Beginning of Year</i>	<u>92,652</u>	<u>113,073</u>	<u>39,237</u>	<u>45,263</u>	<u>50,513</u>	<u>340,738</u>
<i>Fund Balances End of Year</i>	<u>\$106,240</u>	<u>\$123,093</u>	<u>\$37,704</u>	<u>\$40,324</u>	<u>\$57,933</u>	<u>\$365,294</u>

See accompanying notes to the basic financial statements

**PENN TOWNSHIP
HIGHLAND COUNTY**
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$25,230	\$25,230	\$32,042	\$6,812
Intergovernmental	17,206	17,206	26,518	9,312
Interest	1,737	1,737	2,677	940
Other	7	7	11	4
<i>Total Receipts</i>	44,180	44,180	61,248	17,068
Disbursements				
Current:				
General Government	74,500	74,500	42,335	32,165
Public Safety	1,000	1,000	211	789
Public Works	12,000	12,000	0	12,000
Health	31,000	31,000	5,114	25,886
Capital Outlay	16,000	16,000	0	16,000
<i>Total Disbursements</i>	134,500	134,500	47,660	86,840
<i>Excess of Receipts Over (Under) Disbursements</i>	(90,320)	(90,320)	13,588	103,908
<i>Fund Balance Beginning of Year</i>	92,652	92,652	92,652	0
<i>Fund Balance End of Year</i>	\$2,332	\$2,332	\$106,240	\$103,908

See accompanying notes to the basic financial statements

PENN TOWNSHIP, HIGHLAND COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL -BUDGET BASIS
GASOLINE TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	60,488	60,488	77,233	16,745
Interest	1,512	1,512	3,256	1,744
<i>Total Receipts</i>	62,000	62,000	80,489	18,489
Disbursements				
Current:				
Public Works	135,000	135,000	69,607	65,393
Capital Outlay	10,000	1,000	862	138
<i>Total Disbursements</i>	145,000	136,000	70,469	65,531
<i>Excess of Receipts Over (Under) Disbursements</i>	(83,000)	(74,000)	10,020	84,020
<i>Fund Balance Beginning of Year</i>	113,073	113,073	113,073	0
<i>Fund Balance End of Year</i>	\$30,073	\$39,073	\$123,093	\$84,020

See accompanying notes to the basic financial statements

PENN TOWNSHIP, HIGHLAND COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL -BUDGET BASIS
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	7,480	7,480	8,033	553
Intergovernmental	1,000	1,000	682	(318)
<i>Total Receipts</i>	8,480	8,480	8,715	235
Disbursements				
Current:				
Public Works	27,000	27,000	10,248	16,752
<i>Total Disbursements</i>	27,000	27,000	10,248	16,752
<i>Excess of Receipts Over (Under) Disbursements</i>	(18,520)	(18,520)	(1,533)	16,987
<i>Fund Balance Beginning of Year</i>	39,237	39,237	39,237	0
<i>Fund Balance End of Year</i>	\$20,717	\$20,717	\$37,704	\$16,987

See accompanying notes to the basic financial statements

PENN TOWNSHIP, HIGHLAND COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL -BUDGET BASIS
FIRE LEVY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$8,800	\$8,800	\$6,767	(\$2,033)
Intergovernmental	0	0	919	919
<i>Total Receipts</i>	8,800	8,800	7,686	(1,114)
Disbursements				
Current:				
Public Safety	40,000	40,000	12,625	27,375
<i>Total Disbursements</i>	40,000	40,000	12,625	27,375
<i>Excess of Receipts Over (Under) Disbursements</i>	(31,200)	(31,200)	(4,939)	26,261
<i>Fund Balance Beginning of Year</i>	45,263	45,263	45,263	0
<i>Fund Balance End of Year</i>	\$14,063	\$14,063	\$40,324	\$26,261

See accompanying notes to the basic financial statements

PENN TOWNSHIP
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Note 1 – Reporting Entity

The Penn Township, Highland County, Ohio, (the Township) 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, component units and other organizations that were included to ensure that the financial statements are not misleading.

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, road and bridge maintenance, cemetery maintenance, and fire protection services. The Township contracts with the City of Hillsboro and the Highland County North Joint Fire and Ambulance District to provide fire protection services.

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 provided 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 amounts to the Township.

The Township has no component units.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This 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 cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, 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 cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

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.

PENN TOWNSHIP
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Note 2 – Summary of Significant Accounting Policies (continued)

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 all 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 or capital 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 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. Nonmajor 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 all classified as governmental.

Governmental Funds

The Township classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. Monies are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Township's major governmental funds:

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.

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

Road and Bridge - This fund receives property tax money for constructing, maintaining, and repairing Township roads. (2005 only)

Fire Levy Fund - This fund receives property tax money for providing fire protection for Township residents. (2005 only)

PENN TOWNSHIP
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Note 2 – Summary of Significant Accounting Policies (continued)

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 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 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, except agency 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.

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 Clerk. 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 ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Township during the year.

E. Cash and Investments

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".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

PENN TOWNSHIP
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Note 2 – Summary of Significant Accounting Policies (continued)

During 2005, the Township invested in a money market fund.

Interest earnings are allocated to Township funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2006 was \$5,777 and during 2005 was \$2,678.

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 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. Employer Contributions to Cost-Sharing Pension Plans

The Township recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

I. 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 gasoline tax. Restricted net assets represent \$259,054 of a total fund balance of \$365,294 in 2005. In 2006, restricted net assets represent \$265,438 of a total fund balance of \$408,476.

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.

J. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. 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 in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

Note 3 – Change in Basis of Accounting and Restatement of Fund Equity

Last year the Township reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the Township has implemented the cash basis of accounting described in note 2 A. The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

PENN TOWNSHIP
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Note 4 – Budgetary Basis of 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 funds are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference(s) between the budgetary basis and the cash basis are outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis).

Note 5 – Deposits and Investments

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.

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;

PENN TOWNSHIP
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Note 5 – Deposits and Investments (Continued)

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.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Township will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end 2006, \$159,551 of the Township's bank balance of \$409,551 was exposed to custodial credit risk, and at the end of fiscal year end 2005, \$169,051 of the Township's bank balance of \$369,051 was exposed credit risk. These deposits were held in a public funds NOW account which was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

The Township has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Township or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of December 31, 2006, the Township had no investments.

The Township has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payments for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the Fiscal Officer, Board of Trustees, or qualified trustee."

Note 6 – 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. Real property taxes received in 2006 were levied after October 1, 2005, on the assessed values as of January 1, 2005, the lien date. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. 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 December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. 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 and tangible personal property taxes received in 2006 became a lien on December 31, 2005, were levied after October 1, 2005, and are collected with real property taxes. Public utility property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2004, were levied after October 1, 2004, and are collected with real

PENN TOWNSHIP
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Note 6 – Property Taxes (Continued)

property 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 tax receipts received in 2005 (other than public utility property) represent the collection of 2004 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all Township operations for the years ended December 31, 2006 and 2005 were \$2.20 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	<u>2006</u>	<u>2005</u>
Residential	12,139,550	11,325,810
Agriculture	6,088,890	5,947,520
Commercial/Industrial/Mineral	1,517,140	1,517,140
Public Utility Property		
Real	12,930	10,980
Personal	564,970	592,740
Tangible Personal Property	8,396,908	8,075,479
Total Assessed Value	<u>28,720,388</u>	<u>27,469,669</u>

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

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Townships can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with OTARMA.

PENN TOWNSHIP
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Note 7 – Risk Management (Continued)

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

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

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

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

Members may withdraw on each anniversary of the date they joined OTARMA. They must provide written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004. (This is the latest information available)

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$30,485,638	\$28,132,620
Liabilities	(12,344,576)	(11,086,379)
Retained earnings	<u>\$18,141,062</u>	<u>\$17,046,241</u>

<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$9,177,796	\$7,588,343
Liabilities	(1,406,031)	(543,176)
Retained earnings	<u>\$7,771,765</u>	<u>\$7,045,167</u>

PENN TOWNSHIP
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Note 7 – Risk Management (Continued)

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

Note 8 – Defined Benefit Pension Plan

A. Ohio Public Employees Retirement System

The 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, the members of all three plans were required to contribute 9.0 percent of their annual covered salaries. The Township's contribution rate for pension benefits for 2006 was 13.7 percent. For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Township's contribution rate for pension benefits for 2005 was 13.55 percent. The 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 \$5,393, \$4,806, and \$4,680 respectively. The full amount has been contributed for 2006, 2005 and 2004.

Note 9 - 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 2006 and 2005 local government employer contribution rate was 13.7 and 13.55 percent of covered payroll; 4.50 percent of covered payroll was the portion that was used to fund health care.

PENN TOWNSHIP
HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Note 9 - 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, 2005, 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 nine years and 4.00 percent annually after nine 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, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$5,393. 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. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.



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*

Penn Township
Highland County
10005 U.S. Route 62
Leesburg, Ohio 45135

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund balance of Penn Township, Highland County, Ohio (the Township), as of and for the year ended December 31, 2006 and 2005 which collectively comprise the Township's basic financial statements, and have issued our report thereon dated July 11, 2007, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We 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 Government'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 Government's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Government'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 Government'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 Government's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Government'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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

We noted certain matters that we reported to the Government's management in a separate letter dated July 11, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Government'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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the Government's management in a separate letter dated July 11, 2007.

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

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

Mary Taylor, CPA
Auditor of State

July 11, 2007



Mary Taylor, CPA
Auditor of State

PENN TOWNSHIP

HIGHLAND 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 26, 2007**