



**LATTY TOWNSHIP
PAULDING COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006



Mary Taylor, CPA
Auditor of State

LATTY TOWNSHIP
PAULDING COUNTY

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Mary Taylor, CPA

Auditor of State

Latty Township
Paulding County
204 Tyler Street
P.O. Box 47
Grover Hill, Ohio 45849-0047

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 government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an 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

August 16, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Latty Township
Paulding County
204 Tyler Street
P.O. Box 47
Grover Hill, Ohio 45849-0047

To the Board of Trustees:

We have audited the accompanying financial statements of Latty Township, Paulding County, (the Township) as of and for the years ended December 31, 2006 and 2005. 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.

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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.

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, 2006 and 2005, 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, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Latty Township, Paulding County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 August 16, 2007, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

August 16, 2007

**LATTY TOWNSHIP
PAULDING 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>Capital Projects</u> | |
| Cash Receipts: | | | | |
| Property and Other Local Taxes | \$8,775 | \$24,894 | | \$33,669 |
| License, Permits, and Fees | 240 | | | 240 |
| Intergovernmental | 53,764 | 102,366 | \$69,650 | 225,780 |
| Earnings on Investments | 2,799 | 737 | | 3,536 |
| Miscellaneous | | 650 | | 650 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Cash Receipts | 65,578 | 128,647 | 69,650 | 263,875 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Cash Disbursements: | | | | |
| Current: | | | | |
| General Government | 23,642 | | | 23,642 |
| Public Safety | | 17,351 | | 17,351 |
| Public Works | 79,659 | 84,319 | 15,864 | 179,842 |
| Health | 4,800 | | | 4,800 |
| Capital Outlay | 700 | 305 | 53,786 | 54,791 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Cash Disbursements | 108,801 | 101,975 | \$69,650 | 280,426 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Cash Receipts Over/(Under) Cash Disbursements | (43,223) | 26,672 | | (16,551) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Other Financing Receipts | | | | |
| Other Financing Receipts | 2,000 | | | 2,000 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements | (41,223) | 26,672 | | (14,551) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund Cash Balances, January 1 | 95,024 | 59,732 | | 154,756 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund Cash Balances, December 31 | <u>\$53,801</u> | <u>\$86,404</u> | | <u>\$140,205</u> |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Reserve for Encumbrances, December 31 | | \$64 | | \$64 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

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

**LATTY TOWNSHIP
PAULDING COUNTY**

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

| | <u>Governmental Fund Types</u> | | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|-----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | |
| Cash Receipts: | | | | |
| Property and Other Local Taxes | \$8,907 | \$25,369 | | \$34,276 |
| Licenses, Permits, and Fees | 240 | | | 240 |
| Intergovernmental | 105,629 | 100,957 | \$2,201 | 208,787 |
| Earnings on Investments | 19 | 61 | | 80 |
| Miscellaneous | | 600 | | 600 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Cash Receipts | 114,795 | 126,987 | 2,201 | 243,983 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Cash Disbursements: | | | | |
| Current: | | | | |
| General Government | 26,582 | | | 26,582 |
| Public Safety | | 14,978 | | 14,978 |
| Public Works | | 95,306 | | 95,306 |
| Health | 1,006 | 2,925 | | 3,931 |
| Capital Outlay | | 5,000 | 2,201 | 7,201 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Cash Disbursements | 27,588 | 118,209 | 2,201 | 147,998 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Cash Receipts Over Cash Disbursements | 87,207 | 8,778 | | 95,985 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Other Financing Receipts: | | | | |
| Other Financing Sources | 2,000 | | | 2,000 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements | 89,207 | 8,778 | | 97,985 |
| Fund Cash Balances, January 1 | 5,817 | 50,954 | | 56,771 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund Cash Balances, December 31 | <u>\$95,024</u> | <u>\$59,732</u> | | <u>\$154,756</u> |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Reserve for Encumbrances, December 31 | | \$46 | | \$46 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

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

**LATTY TOWNSHIP
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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 Latty Township, Paulding County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road, bridge, and cemetery maintenance. The Township contracts with the Villages of Grover Hill and Scott to provide fire services and ambulance services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public risk entity pool.

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 accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investments sales. This basis records gain or losses at the time of sales as receipts or disbursements respectfully. The Township values certificates of deposits at cost.

D. Fund Accounting

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

1. General Fund

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

**LATTY TOWNSHIP
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

2. Special Revenue Funds

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

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

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Township had the following significant capital project fund:

Community Development Block Grant (CDBG) Formula Fund - The Township received CDBG Formula grant monies from the Paulding County Commissioners for road maintenance and repair.

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 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. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2006 and 2005 budgetary activity appears in Note 3.

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.

**LATTY TOWNSHIP
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

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 follows:

| | 2006 | 2005 |
|-------------------------|-----------|----------|
| Demand deposits | \$112,172 | \$91,756 |
| Certificates of deposit | 28,033 | 63,000 |
| Total deposits | 140,205 | 154,756 |

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|------------------|----------------------|--------------------|----------|
| General | \$42,050 | \$67,578 | \$25,528 |
| Special Revenue | 123,130 | 128,647 | 5,517 |
| Capital Projects | 69,650 | 69,650 | |
| Total | \$234,830 | \$265,875 | \$31,045 |

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|------------------|----------------------------|---------------------------|----------|
| General | \$149,272 | \$108,801 | \$40,471 |
| Special Revenue | 158,393 | 102,039 | 56,354 |
| Capital Projects | 69,650 | 69,650 | |
| Total | \$377,315 | \$280,490 | \$96,825 |

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|------------------|----------------------|--------------------|-----------|
| General | \$22,650 | \$116,795 | \$94,145 |
| Special Revenue | 115,835 | 126,987 | 11,152 |
| Capital Projects | 2,201 | 2,201 | |
| Total | \$140,686 | \$245,983 | \$105,297 |

**LATTY TOWNSHIP
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. BUDGETARY ACTIVITY – (CONTINUED)

| 2005 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$31,890 | \$27,588 | \$4,302 |
| Special Revenue | 128,946 | 118,255 | 10,691 |
| Capital Projects | 2,201 | 2,201 | |
| Total | \$163,037 | \$148,044 | \$14,993 |

The following occurred contrary to Ohio law:

- Expenditures were not certified by the fiscal officer at the time the funds were committed.
- Local Transportation Improvements Program (LTIP) monies in the amount of \$53,786 disbursed on the Township's behalf were not posted in the Township's financial records.
- Certain expenditures were allocated incorrectly to the Gas Tax fund.

4. PROPERTY TAX

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

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

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. RETIREMENT SYSTEM

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

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5 percent, respectively, of their gross salaries. The Township contributed an amount equal to 13.7 and 13.55 percent, respectively of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

**LATTY TOWNSHIP
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. RISK POOL MEMBERSHIP

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

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

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

Casualty Coverage

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

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

Property Coverage

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

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers 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, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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

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

**LATTY TOWNSHIP
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. RISK POOL MEMBERSHIP – (CONTINUED)

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005.

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

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$9,312. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

Contributions to OTARMA

| | |
|------|---------|
| 2004 | \$4,565 |
| 2005 | \$4,566 |
| 2006 | \$4,656 |

**LATTY TOWNSHIP
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. RISK POOL MEMBERSHIP – (CONTINUED)

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they give 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.

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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*

Latty Township
Paulding County
204 Tyler Street
P.O. Box 47
Grover Hill, Ohio 45849-0047

To the Board of Trustees:

We have audited the financial statements of Latty Township, Paulding County (the Township) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated August 16, 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 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 because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting 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 certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-004.

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 deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated August 16, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2006-001 through 2006-003.

We noted certain noncompliance matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated August 16, 2007.

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



Mary Taylor, CPA
Auditor of State

August 16, 2007

**LATTY TOWNSHIP
PAULDING COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

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

FINDING NUMBER 2006-001

Noncompliance Finding and Significant Deficiency

Ohio Rev. Code Section 5735.27 (A)(5)(c) requires the funds received from the gasoline excise tax shall be expended by each township to plan, construct, maintain, widen, and reconstruct the public roads and highways within such township. In addition, Article XII, Section 5a, of the Ohio Constitution states that no monies derived from fees, excises, or license taxes relating to registration, operation, or use of vehicles on public highways, or to fuels used for propelling such vehicles, shall be expended for other than costs of administering such laws, statutory refund and adjustments provided therein, payment of highway obligations, costs for construction, reconstruction, maintenance and repair of public highways and bridges and other statutory highway purposes, expense of state enforcement of traffic laws, and expenditures authorized for hospitalization of indigent persons injured in motor vehicle accidents on the public highways.

The Township made the following unallowable expenditures from the Gasoline Tax Fund:

| Year | Description | Unallowable Portion |
|-------------|-----------------------------------|----------------------------|
| 2005 | Clerk's life insurance | \$174 |
| | Clerk's disability insurance | 558 |
| | Clerk's cancer insurance | 538 |
| | Clerk's dental insurance | 706 |
| | Employer share OPERS for Clerk | 1,246 |
| | Employer share Medicare for Clerk | 133 |
| | Cemetery mowing | <u>936</u> |
| | Total 2005 | \$4,291 |
| 2006 | Clerk's life insurance | \$174 |
| | Clerk's disability insurance | 558 |
| | Clerk's cancer insurance | 538 |
| | Clerk's dental insurance | 421 |
| | Employer share OPERS for Clerk | 1,282 |
| | Employer share Medicare for Clerk | 137 |
| | Cemetery mowing | <u>4,800</u> |
| | Total 2006 | \$7,910 |

In accordance with the foregoing facts, a finding for adjustment is hereby issued against the General Fund in the amount of \$12,201, in favor of the Gasoline Tax Fund.

The fiscal officer should review the Ohio Township Manual and Ohio Revised Code to determine allowable expenditures for each fund.

The financial statements have been adjusted to correct this misstatement.

Official's Response:

Management did not respond to this finding.

FINDING NUMBER 2006-002

Noncompliance Finding and Significant Deficiency

Ohio Rev. Code §5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Township did not properly certify the availability of funds in thirty-seven percent of the expenditure transactions tested. Failure to certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

**FINDING NUMBER 2006-002
(Continued)**

We recommend the Township certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Official's Response:

Management did not respond to this finding.

FINDING NUMBER 2006-003

Noncompliance Finding and Significant Deficiency

Chapter 5705 of the Revised Code sets forth a scheme that provides for a uniform budget and appropriation process in order to assure that a government entity expends no more that it expects to receive in revenue. In order to accomplish this, all appropriations must be accounted to and from each appropriation fund. While federal and state loans and grants are deemed appropriated and in the process of collection so as to be available for expenditure, they must still be recorded (R.C.5705.42). Thus, a mechanism is still required to account for receipts and expenditures. That mechanism is an amendment of, or a supplement to, the entity's estimated resources, or its appropriation measure, which shall comply with all provisions of law governing the taxing authority in making an original appropriation (R.C.5705.40). An original appropriation measure must be passed by the taxing authority, and in any amendment of, or supplement to, that measure also requires legislative action (R.C. 5705.38).

Auditor of State Bulletin 2000-008 further requires that when an entity enters into an "on-behalf-of" program with another government whereby the entity is the beneficiary under the agreement, the cash value benefit of the program should be recorded as memorandum receipts and disbursements in the year the "on-behalf-of" payments are made.

The Township did not record Local Transportation Improvements Program (LTIP) monies in the amount of \$53,786 disbursed to the project contractor on the Township's behalf on the Township books. These grant monies were not recorded in a special fund. Since the local government receives benefit from LTIP funds, the Township should report this funding.

The accompanying financial statements have been adjusted to reflect the "on-behalf-of" activity in 2006.

We recommend that the Township follow the guidelines of Auditor of State Bulletin 2000-008, which describes the proper accounting treatment for "on-behalf-of" programs and that the Township post all grant money received to the Township books.

Official's Response:

Management did not respond to this finding.

FINDING NUMBER 2006-004

Significant Deficiency

Financial Reporting

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustments.

1. Uniform accounting network (UAN) fees of \$1,008 in 2006 and \$1,176 in 2005 and automotive supplies of \$750 in 2006 were classified as Health expenditures in the General fund instead of General Government and Public Works expenditures.
2. Fire contract expenditures of \$12,121 in 2006 and \$10,338 in 2005 were classified as General Government expenditures in the Fire fund. These should be Public Safety expenditures.
3. Emergency medical service (EMS) contract expenditures of \$5,230 in 2006 and \$4,639 in 2005 were classified as General Government expenditures in the EMS fund. These should be Public Safety expenditures.
4. Renovations made to a polling area were classified as General Government expenditures within the Capital Projects fund instead of Public Works expenditures.
5. Mowing expenditures of \$2,925 in 2005 were classified as Capital Outlay in the Cemetery fund instead of Health expenditures.

Sound financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

To ensure the Township's financial statements and notes to the statements are complete and accurate, the Township should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Board of Trustees, to identify and correct errors and omissions. The Fiscal Officer should also review the Township Handbook's chart of accounts to ensure that all accounts are being properly posted to the financial statements.

Official's Response:

Management did not respond to this finding.

**LATTY TOWNSHIP
PAULDING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 and 2005**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2004-001 | Finding for Recovery issued for improper expenditures were made for a Trustee's spouse while attending a convention | Yes | |



Mary Taylor, CPA
Auditor of State

LATTY TOWNSHIP
PAULDING 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
SEPTEMBER 20, 2007