



Mary Taylor, CPA
Auditor of State

STOCK TOWNSHIP
NOBLE COUNTY

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Mary Taylor, CPA

Auditor of State

Stock Township
Noble County
42966 State Route 260
Caldwell, Ohio 43724

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.

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

Mary Taylor, CPA
Auditor of State

May 29, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Stock Township
Noble County
42966 State Route 260
Caldwell, Ohio 43724

To the Board of Trustees:

We have audited the accompanying financial statements of Stock Township, Noble County, Ohio (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.

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.

During 2000, the Township disbursed \$13,500 from the Gasoline Tax and the Motor Vehicle License Tax special revenue funds for a building to be used as the Township hall. Ohio Rev. Code Sections 5735.27 and 4503.02 precluded these funds from paying these costs, which should have been paid from the General Fund. The Township has declined to adjust its financial statements or accounting records. Had this cost been paid from the General Fund, the effect would be to decrease the General Fund cash balance at January 1, 2005, December 31, 2005 and December 31, 2006 by \$13,500. The Special Revenue fund cash balances at January 1, 2005, December 31, 2005 and December 31, 2006 would have increased by \$13,500.

The Township expended gasoline excise tax monies for unallowable purposes in the amounts of \$5,857 and \$4,524 in 2006 and 2005, respectively, from the Gasoline Tax Fund, a Special Revenue fund. Ohio Rev. Code Section 5735.27 restricts the purpose for which gasoline excise tax monies may be expended. The Township has declined to adjust its financial statements or accounting records to record these disbursements from the General Fund. Had these costs been paid from the General Fund, the effect would be to decrease the General Fund cash balance at December 31, 2005 by an additional \$4,524 and at December 31, 2006 by a total of \$10,381. The Special Revenue fund type cash balance would have increased by \$4,524 at December 31, 2005 and by a total of \$10,381 at December 31, 2006.

Also, in our opinion, because of the effect of the matters discussed in the preceding two paragraphs, the financial statements referred to above do not present fairly the combined fund cash balances of Stock Township, Noble 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 May 29, 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

May 29, 2007

**STOCK TOWNSHIP
NOBLE 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>	
Cash Receipts:			
Local Taxes	\$11,376	\$6,502	\$17,878
Intergovernmental	7,389	96,862	104,251
Earnings on Investments	248	373	621
Other Revenue	128	269	397
	<u>19,141</u>	<u>104,006</u>	<u>123,147</u>
Cash Disbursements:			
Current:			
General Government	15,276	1,699	16,975
Public Safety		965	965
Public Works		68,678	68,678
Health	1,136		1,136
	<u>16,412</u>	<u>71,342</u>	<u>87,754</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>2,729</u>	<u>32,664</u>	<u>35,393</u>
Fund Cash Balances, January 1	<u>5,898</u>	<u>93,728</u>	<u>99,626</u>
Fund Cash Balances, December 31	<u><u>\$8,627</u></u>	<u><u>\$126,392</u></u>	<u><u>\$135,019</u></u>

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

**STOCK TOWNSHIP
NOBLE 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>	
Cash Receipts:			
Local Taxes	\$11,325	\$6,472	\$17,797
Intergovernmental	6,670	152,080	158,750
Earnings on Investments	179	268	447
Other Revenue		8,081	8,081
		<u>8,081</u>	<u>8,081</u>
 Total Cash Receipts	 <u>18,174</u>	 <u>166,901</u>	 <u>185,075</u>
 Cash Disbursements:			
Current:			
General Government	13,642	4,260	17,902
Public Safety		949	949
Public Works		71,936	71,936
Health	1,002		1,002
Miscellaneous		64,634	64,634
		<u>64,634</u>	<u>64,634</u>
 Total Cash Disbursements	 <u>14,644</u>	 <u>141,779</u>	 <u>156,423</u>
 Total Cash Receipts Over/(Under) Cash Disbursements	 <u>3,530</u>	 <u>25,122</u>	 <u>28,652</u>
 Fund Cash Balances, January 1	 <u>2,368</u>	 <u>68,606</u>	 <u>70,974</u>
 Fund Cash Balances, December 31	 <u>\$5,898</u>	 <u>\$93,728</u>	 <u>\$99,626</u>

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

**STOCK TOWNSHIP
NOBLE 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 Stock Township, Noble County (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Caldwell and Summerfield Volunteer fire departments to provide fire protection.

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. 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.

2. Special Revenue Funds

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

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

Miscellaneous Special Revenue – This fund receives state and federal monies from the Federal Emergency Management Association for flood disaster.

**STOCK TOWNSHIP
NOBLE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. 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 object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

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

E. 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.

2. EQUITY IN POOLED CASH

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

	<u>2006</u>	<u>2005</u>
Demand deposits	<u>\$135,019</u>	<u>\$99,626</u>

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by the financial institutions public entity deposit pool.

**STOCK TOWNSHIP
NOBLE COUNTY**

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

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	\$17,550	\$19,141	\$1,591
Special Revenue	93,640	104,006	10,366
Total	\$111,190	\$123,147	\$11,957

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$23,448	\$16,412	\$7,036
Special Revenue	187,368	71,342	116,026
Total	\$210,816	\$87,754	\$123,062

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$16,890	\$18,174	\$1,284
Special Revenue	149,929	166,901	16,972
Total	\$166,819	\$185,075	\$18,256

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$19,259	\$14,644	\$4,615
Special Revenue	218,536	141,779	76,757
Total	\$237,795	\$156,423	\$81,372

Contrary to Ohio law, appropriations were not amended under the same provisions of law as were used in making the original appropriation.

4. PROPERTY TAX

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

**STOCK TOWNSHIP
NOBLE COUNTY**

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

4. PROPERTY TAX (Continued)

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 SYSTEMS

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 the plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9% and 8.5%, respectively, of their gross salaries and the Township contributed an amount equaling 13.% and 13.55%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

6. RISK MANAGEMENT

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

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

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

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 aggregate per year. Townships 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.

**STOCK TOWNSHIP
NOBLE COUNTY**

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

6. RISK MANAGEMENT (Continued)

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 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 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 township.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 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 townships 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 \$5,700. This payable includes the

**STOCK TOWNSHIP
NOBLE COUNTY**

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

6. RISK MANAGEMENT (Continued)

subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

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

<u>Township Contributions to OTARMA</u>	
2004	\$1,942
2005	\$2,955
2006	\$2,857

After completing one year of membership, 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 contributions, minus the subsequent year's 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 was incurred or reported prior to the withdrawal.



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*

Stock Township
Noble County
42966 State Route 260
Caldwell, Ohio 43724

To the Board of Trustees:

We have audited the financial statements of Stock Township, Noble County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated May 29, 2007, wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. In addition, we opined the financial statements were not fairly presented since the Township declined to adjust its financial statements or accounting records for disbursements not recorded in the proper fund types from the December 31, 2000 and 1999 audit and the current audit. These adjustments still result in a material misstatement of General and Special Revenue Fund cash balances as of January 1, 2005, December 31, 2005 and December 31, 2006. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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: 2006-004 and 2006-005.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted a certain internal control matter that we reported to the Township's management in a separate letter dated May 29, 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 or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2006-001 through 2006-005.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated May 29, 2007.

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

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



Mary Taylor, CPA
Auditor of State

May 29, 2007

**STOCK TOWNSHIP
NOBLE 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

Finding for Adjustment

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. Ohio Rev. Code Section 4503.02 requires the funds received from an annual license tax shall be used, in part, for planning, constructing, maintaining, repairing roads, highways, and streets, and maintaining and repairing bridges and viaducts. 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.

In our report dated March 16, 2001 on the Township's financial statement for the year ended December 31, 2000, we noted that during December 2000, the Township purchased a building to be used as the Township hall. The Township paid for the building from the Gasoline Tax Fund, Special Revenue Fund Type, and Motor Vehicle License Tax Fund, Special Revenue Fund Type.

In our March 16, 2001 report, we issued a finding for adjustment against the General Fund of Stock Township, Noble County, in the amount of \$13,500 in favor of the Gasoline Tax Fund, Special Revenue Fund Type, in the amount of \$8,500, and in favor of the Motor Vehicle License Tax Fund, Special Revenue Fund Type, in the amount of \$5,000.

This adjustment has not been recorded on the books of the Township. Accordingly, since the Township did not post this adjustment to their accounting system, we are reissuing this finding for adjustment.

Officials' Response: The Township did not want to borrow money and be charged interest so the purchase was made out of the wrong fund.

FINDING NUMBER 2006-002

Finding for Adjustment

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:

**STOCK TOWNSHIP
NOBLE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

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

FINDING NUMBER 2006-002 (Continued)

Finding for Adjustment - Ohio Rev. Code Section 5735.27(A)(5)(c)(Continued)

<u>Year</u>	<u>Description</u>	<u>Unallowable Portion</u>
2005	Security lights/electric	\$ 872
	Audit fees	2,687
	Fire protection	965
	Total 2005	\$4,524
2006	Purchase of land	\$3,000
	Security lights/electric	918
	Audit fees	735
	UAN fees	150
	Fire protection	965
	500 checks	89
	Total 2006	\$5,857

In accordance with the foregoing facts, and pursuant to Ohio Revised Code 117.28, a finding for adjustment is hereby issued against the General Fund in the amount of \$10,381, in favor of the Gasoline Tax Fund, Special Revenue Fund Type.

Officials' Response: The Township did not want to borrow money and be charged interest so these payments were made out of the wrong fund.

FINDING NUMBER 2006-003

Finding for Recovery Repaid Under Audit

Ohio Rev. Code Section 505.60(A) provides, in part, that Townships may pay a township officer or employee for all or any part of the cost of insurance policies, including long-term care insurance. According to Ohio Rev. Code Section 505.60(C), reimbursement is permitted for a township officer or employee who is denied coverage under a township health care plan established pursuant to Ohio Rev. Code Section 505.60(B), or who elects not to participate in the township's plan. The reimbursement cannot exceed an amount equal to the average premium paid by the township under the policies it procures.

During 2005 and 2006, the Township Clerk, Evelyn D. Brown, was receiving individual cancer coverage from Teacher's Protective Mutual through the Township. In addition, Evelyn Brown was being reimbursed by the Township for family cancer insurance premiums paid through payroll deduction from her husband's employer. These double payments are not allowable per Ohio Rev. Code Section 505.60 and resulted in the overpayment of \$386 in 2005 and \$384 in 2006 for family cancer insurance reimbursements to Evelyn D. Brown.

**STOCK TOWNSHIP
NOBLE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

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

FINDING NUMBER 2006-003 (Continued)

Finding for Recovery Repaid Under Audit - Ohio Rev. Code Section 505.60(A) (Continued)

On June 5, 2007, Evelyn Brown issued a check to Stock Township for \$770 as repayment. We will consider this a finding for recovery repaid under audit.

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

FINDING NUMBER 2006-004

Noncompliance Citation and Significant Deficiency

Ohio Rev. Code Section 5705.40 provides, in part, that a subdivision may amend or supplement its appropriation measure provided the entity complies with the same provisions of law as are used in making the original appropriation. In addition, Ohio courts have held that a board or officer whose judgment and discretion is required, was chosen because they were deemed fit and competent to exercise that judgment and discretion and unless power to substitute another in their place has been given, such board or officer cannot delegate these duties to another. Following such reasoning, a Township Board of Trustees would be prohibited from delegating duties statutorily assigned to it, such as the duty of amending appropriations, as provided for in Ohio Revised Code Section 5705.40. See, *C.B. Transportation, Inc. v. Butler County Board of Mental Retardation*, 60 Ohio Misc. 71, 397 N.E.2d 781 (C.P. 1979); *Burkholder v. Lauber*, 6 Ohio Misc. 152, 216 N.E.2d (C.P. 1965).

During 2005 and 2006, the Township Clerk posted line item appropriation amendments to various funds each year. However, these amendments were not approved by the Board of Trustees in the minutes, nor certified to the County Auditor. Variances existed between the amount approved by the legislative body and the amount posted to the accounting system as follows:

Fiscal Year	Fund/Line Item	Approved Appropriations	Appropriations per the UAN system	Variance
2005	1000-110-229	\$ 250	\$360	(\$110)
2005	1000-110-313	0	300	(300)
2005	1000-110-314	125	625	(500)
2005	1000-110-599	3,407	2,497	910
2005	2021-330-221	7,500	6,400	1,100
2005	2021-330-229	500	1,600	(1,100)
2005	2021-330-230	750	1,250	(500)
2005	2021-330-323	20,000	19,500	500
2005	2021-330-381	1,500	2,000	(500)
2005	2021-330-382	1,000	1,100	(100)
2005	2021-330-383	500	0	500
2005	2021-330-410	350	250	100
2005	2021-330-420	20,000	12,500	7,500
2005	2021-330-599	13,032	20,532	(7,500)

**STOCK TOWNSHIP
NOBLE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-004 (Continued)

Noncompliance Citation and Significant Deficiency - Ohio Rev. Code Section 5705.40 (Continued)

Fiscal Year	Fund/Line Item	Approved Appropriations	Appropriations per the UAN system	Variance
2006	1000-110-111	\$384	\$434	(\$50)
2006	1000-110-229	500	675	(175)
2006	1000-110-315	75	300	(225)
2006	1000-330-599	450	0	450
2006	2021-330-221	6,500	6,325	175
2006	2021-330-224	1,000	850	150
2006	2021-330-229	2,100	2,425	(325)

Because the information entered into the accounting system was inaccurate, the Township management was unable to effectively monitor budget verses actual activity.

We recommend the Township Board of Trustees approve all appropriation amendments, record approval in the Board minutes, and file all appropriation amendments with the County Auditor in order to receive confirmation from the County Auditor that appropriations do not exceed estimated resources. The Township Clerk should post these amendments only after the required approvals have been obtained.

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

FINDING NUMBER 2006-005

Noncompliance Citation and Significant Deficiency

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority 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. 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 receipt of the "then and now" certificate to approve payment by ordinance or resolution.

STOCK TOWNSHIP
NOBLE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)

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

FINDING NUMBER 2006-005
(Continued)

Noncompliance Citation and Significant Deficiency - Ohio Rev. Code Section 5705.41(D)(1)
(Continued)

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 so-called "blanket" certificates not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.
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 exceed 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 prior to purchase commitment for 16 percent of the expenditures tested in 2005 and for 9 percent of the expenditures tested in 2006, and there was no evidence that the Township followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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 Clerk certify that the funds are or will be available prior to an obligation being incurred by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Township certify purchases to which Section 5705.41(D) applies. The fiscal officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied.

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

**STOCK TOWNSHIP
NOBLE 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	The Township used gasoline excise tax and motor vehicle license tax monies to purchase a building to be used as the Township hall. Ohio Rev. Code Sections 5735.27 and 4503.02 restrict the use of these monies from such purchase.	No	Not Corrected; the Township was issued a finding for adjustment in the audit report for the period ended December 31, 2000. The adjustment has not been booked. Repeated as Finding Number 2006-001 in the Schedule of Findings.



Mary Taylor, CPA
Auditor of State

STOCK TOWNSHIP

NOBLE 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 5, 2007