



**DAMASCUS TOWNSHIP
HENRY COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006



Mary Taylor, CPA
Auditor of State

**DAMASCUS TOWNSHIP
HENRY COUNTY**

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Mary Taylor, CPA

Auditor of State

Damascus Township
Henry County
Q-245 County Road 1
McClure, Ohio 43534-9712

To the 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

January 4, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Damascus Township
Henry County
Q-245 County Road 1
McClure, Ohio 43534-9712

To the Township Board of Trustees:

We have audited the accompanying financial statements of Damascus Township, Henry 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. Also, the Township reclassified its presentation of the Lowery Trust Fund as described in Note 2.

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 of Damascus Township, Henry 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 January 4, 2008, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

January 4, 2008

**DAMASCUS TOWNSHIP
HENRY 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**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Permanent	
Cash Receipts:					
Property and Other Local Taxes	\$72,894	\$79,652			\$152,546
Charges for Services		26,904			26,904
Licenses, Permits, and Fees	100				100
Fines and Forfeitures	18				18
Intergovernmental	46,364	141,732			188,096
Earnings on Investments	3,094	188		\$2,347	5,629
Miscellaneous	98	1,678			1,776
Total Cash Receipts	122,568	250,154		2,347	375,069
Cash Disbursements:					
Current:					
General Government	86,916				86,916
Public Safety	21,225	32,951			54,176
Public Works	6,200	14,882			21,082
Health		3,858			3,858
Capital Outlay		110,899			110,899
Total Cash Disbursements	114,341	162,590			276,931
Total Cash Receipts Over Cash Disbursements	8,227	87,564		2,347	98,138
Other Financing Receipts / (Disbursements):					
Transfers-In			\$3,124		3,124
Transfers-Out	(3,124)				(3,124)
Other Financing Sources		887			887
Total Other Financing Receipts / (Disbursements)	(3,124)	887	3,124		887
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	5,103	88,451	3,124	2,347	99,025
Fund Cash Balances, January 1	165,814	157,375	48,183	74,852	446,224
Fund Cash Balances, December 31	\$170,917	\$245,826	\$51,307	\$77,199	\$545,249

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

**DAMASCUS TOWNSHIP
HENRY 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**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Permanent	
Cash Receipts:					
Property and Other Local Taxes	\$68,218	\$75,044			\$143,262
Charges for Services		28,040			28,040
Licenses, Permits, and Fees	350				350
Fines and Forfeitures	150				150
Intergovernmental	69,098	107,022			176,120
Earnings on Investments	2,755	280		\$1,305	4,340
Miscellaneous	493	2,540			3,033
	<u>141,064</u>	<u>212,926</u>		<u>1,305</u>	<u>355,295</u>
Total Cash Receipts					
Cash Disbursements:					
Current:					
General Government	66,716				66,716
Public Safety	18,756	31,407			50,163
Public Works	5,600	55,181			60,781
Health		15,165			15,165
Capital Outlay		230,805			230,805
	<u>91,072</u>	<u>332,558</u>			<u>423,630</u>
Total Cash Disbursements					
Total Cash Receipts Over/(Under) Cash Disbursements	49,992	(119,632)		1,305	(68,335)
Other Financing Receipts / (Disbursements):					
Transfers-In		500			500
Transfers-Out	(500)				(500)
Other Financing Sources		3,709			3,709
	<u>(500)</u>	<u>4,209</u>			<u>3,709</u>
Total Other Financing Receipts / (Disbursements)					
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	49,492	(115,423)		1,305	(64,626)
Fund Cash Balances, January 1	116,322	272,798	\$48,183	73,547	510,850
Fund Cash Balances, December 31	<u>\$165,814</u>	<u>\$157,375</u>	<u>\$48,183</u>	<u>\$74,852</u>	<u>\$446,224</u>

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

**DAMASCUS TOWNSHIP
HENRY 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 Damascus Township, Henry 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 participates in the Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. Note 7 to the financial statements provides additional information for this entity. This organization is:

Public Entity Risk Pool:

OTARMA is available to Ohio townships. OTARMA provides property and casualty coverage for its members.

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

The Township values certificates of deposit 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.

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 Fund:

**DAMASCUS TOWNSHIP
HENRY COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Fire Protection Special Levy Fund - This fund receives property tax money for providing fire protection to the Township.

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.

Fire Equipment Replacement Fund – This fund receives it's revenue through Transfers from the General Fund.

4. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Township had the following significant permanent fund:

Lowery Trust Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Township's cemeteries.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2006 and 2005 budgetary activity appears in Note 4.

**DAMASCUS TOWNSHIP
HENRY COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

F. Property, Plant, and Equipment

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. RESTATEMENT OF FUNDS

In accordance with the provisions of Governmental Accounting Standards Board Statement 34, the Township reclassified its Lowery Trust fund from a Nonexpendable Trust Fund to a Permanent Fund for 2005. The effect on the fund balances is as follows:

	Non Expendable Trust	Permanent
Fund Balance as reported at December 31, 2004	\$73,547	
Reclassification of Fund Balance	(73,547)	\$73,547
Restated Fund Balances at January 1, 2005	\$73,547	\$73,547

3. 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:

	2006	2005
Demand deposits	\$408,091	\$277,079
Certificates of deposit	137,158	169,145
Total deposits	\$545,249	\$446,224

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

4. 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	\$105,717	\$122,568	\$16,851
Special Revenue	217,833	251,041	33,208
Capital Projects	2,500	3,124	624
Permanent	1,913	2,347	434
Total	\$327,963	\$379,080	\$51,117

**DAMASCUS TOWNSHIP
HENRY COUNTY**

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

4. BUDGETARY ACTIVITY – (CONTINUED)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$162,200	\$117,465	\$44,735
Special Revenue	282,762	162,590	120,172
Permanent	12,250		12,250
Total	\$457,212	\$280,055	\$177,157

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$111,701	\$141,064	\$29,363
Special Revenue	192,872	217,135	24,263
Capital Projects	3,740		(3,740)
Permanent	1,330	1,305	(25)
Total	\$309,643	\$359,504	\$49,861

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$175,350	\$91,572	\$83,778
Special Revenue	373,650	332,558	41,092
Total	\$549,000	\$424,130	\$124,870

5. 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.

**DAMASCUS TOWNSHIP
HENRY COUNTY**

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

6. RETIREMENT SYSTEM

The Township's officials and 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 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 13.7 and 13.55%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

7. RISK MANAGEMENT

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

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

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

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.

**DAMASCUS TOWNSHIP
HENRY COUNTY**

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

7. RISK MANAGEMENT – (CONTINUED)

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.

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 \$35,306. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

**DAMASCUS TOWNSHIP
HENRY COUNTY**

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

7. RISK MANAGEMENT – (CONTINUED)

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

<u>Contributions to OTARMA</u>	
2004	\$15,890
2005	\$16,069
2006	\$17,653

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.

8. COMPLIANCE

Contrary to the requirements of Ohio law the Township misclassified revenues between the General Fund, the Lowery Trust Fund, the Road and Bridge Fund, the Fire Protection Special Levy Fund, and the Fire Equipment Replacement Fund.

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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*

Damascus Township
Henry County
Q-245 County Road 1
McClure, Ohio 43534-9712

To the Township Board of Trustees:

We have audited the financial statements of Damascus Township, Henry County, (the Township) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated January 4, 2008, 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 and wherein we noted the Township reclassified its presentation of the Lowery Trust Fund. 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 considered significant deficiencies.

One Government Center / Suite 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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: 2006-002 and 2006-003.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we believe finding number 2006-002 is also a material weakness.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated January 4, 2008.

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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of finding items 2006-001 through 2006-003.

We also noted certain noncompliance that we reported to the Township's management in a separate letter dated January 4, 2008.

The Township's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Township's response and, accordingly, we express no opinion on it.

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



Mary Taylor, CPA
Auditor of State

January 4, 2008

**DAMASCUS TOWNSHIP
HENRY COUNTY**

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

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

We are proposing a Finding for Recovery for the following reason:

Ohio Rev. Code Section 505.601 states if a board of township trustees does not procure an insurance policy or group health care services as provided in section 505.60 of the Revised Code, the board of township trustees may reimburse any township officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of section 505.60 of the Revised Code that the officer or employee otherwise obtains, if all of the following conditions are met:

(A) The board of township trustees adopts a resolution that states that the township has chosen not to procure a health care plan under section 505.60 of the Revised Code and has chosen instead to reimburse its officers and employees for each out-of-pocket premium that they incur for insurance policies described in division (A) of section 505.60 of the Revised Code that they otherwise obtain.

(B) That resolution provides for a uniform maximum monthly or yearly payment amount for each officer or employee, beyond which the township will not reimburse the officer or employee.

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

The Township mistakenly believed that it could reimburse its officers/employees for the out of pocket premium associated with family coverage. As stated above, a township may only reimburse an officer/employee for the premium attributable to that officer/employee. All such warrants for reimbursement for out-of-pocket premiums were signed by the Trustees and the Fiscal Officer.

Mr. Greens' private employer did not charge an additional out-of-pocket premium for his personal coverage. In 2005, the estimated cost of Mr. Smith's share of insurance was based on his prorated share of the total family members covered under the family insurance plan. In 2006, Mr. Smith obtained separate policies for him and each dependent, and was reimbursed for the total amount. From these, separate invoices were issued, and Mr. Smith's actual share was easily discernible. Consequently, the Township overpaid the following individuals the following amounts:

<u>Terrance Green - Out-of Pocket Premium</u>	<u>2006</u>	<u>2005</u>	<u>Total</u>
Cost of Family Insurance	\$3,181.84	\$3,738.28	
Total Overpayment			<u><u>\$6,920.12</u></u>

<u>Greg Smith - Out-of Pocket Premium</u>	<u>2005</u>	<u>2006</u>	<u>Total</u>
Cost of Family Insurance	\$2,301.45	\$5,941.08	
Estimated Cost of Official's Share of Family Plan	(767.15)		
Cost of Official's Insurance		(2,612.00)	
Overpayment	<u>\$1,534.30</u>	<u>\$3,329.08</u>	
Total Overpayment			<u>\$ 4,863.38</u>

In accordance with the forgoing facts, and pursuant to Ohio Revised Code § 117.28, Findings for Recovery for public money illegally expended are hereby issued against Terrance Green, Township Fiscal Officer, and Greg Smith, Township Trustee, and their bonding company, Ohio Township Association Risk Management Authority, in the corresponding amounts listed above. Each is primarily liable for the amount he received in overpayment.

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

Therefore, because all Township Officers approved and signed the warrants resulting in improper payments, the following are jointly and severally liable for the entire amount of \$11,783.50: Victor Johnson, Township Trustee, Eric Johnson, Township Trustee, Greg Smith Township Trustee, and Terrance Green, Fiscal Officer, and their bonding company Ohio Township Association Risk Management. This recovery is in favor of Damascus Township's General Fund.

Victor Johnson and Eric Johnson will only be liable to the extent that payment is not received from Greg Smith and Terrance Green.

Officials Response:

In response to the State of Ohio Auditor's findings the Board of Damascus Township Trustees' motion to not accept the ruling on repayment on health care expenditures at this time due to rebuttal of finding. The Board decision to withhold repayment until the Henry County Prosecutor, Mr. Jay Hanna ruling has been issued on this controversial topic effecting Townships state wide. The Trustees passed the necessary resolution in 1998 to provide health care coverage for elected officials by reimbursement of premiums thus saving the Township a substantial sum on health care. In conclusion, the Board of Damascus Township Trustees are not willing to accept this finding and will seek all legal means to resolve this State Attorney General's opinion.

FINDING NUMBER 2006-002

Noncompliance Citation / Material Weakness

Ohio Revised Code § 5705.10 provides, in part, that all revenue derived from a special levy is to be credited to a special fund for the purpose which the levy was made and all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

During 2005, \$1,059 of the Fire Protection Special Levy Fund tax settlements was posted to the Road and Bridge Fund and, \$35,885 in estate taxes was posted to the Capital Projects Fire Fund rather than the General Fund. The Township Fiscal Officer posted these adjustments to the Townships records and they are reflected in the accompanying financial statements.

These situations could result in monies being used for purposes other than those prescribed by law. Furthermore, inaccurate posting of transaction impedes the ability of management and officials to accurately assess the financial status of the Township.

We recommend that all financial transactions be included in the proper account codes as specified in the Ohio Township Handbook issued by the Auditor of State. In addition, the Township should adopt procedures and policies including a periodic review of the records for proper posting of financial transactions as well as a final review of the financial statements by the Fiscal Officer and Trustees to ensure that errors are minimized.

Officials Response:

We did not receive a response from the officials to this finding.

FINDING NUMBER 2006-003

Noncompliance Citation / Significant Deficiency

Ohio Revised Code § 5705.131 provides that the principal of a nonexpendable trust (permanent) fund may be invested and the investment earning on the principal shall be credited to the fund.

In 2006, the Township credited \$1,141 in interest earnings to the General Fund that should have been posted to the Lowery Trust Fund (a permanent fund). This could result in restricted revenues being used for purposes other than was intended by the donor. The Fiscal Officer posted this adjustment to the respective funds and it is reflected in the accompanying financial statements. We recommend interest earnings attributable to permanent funds be credited to them.

Officials Response:

We did not receive a response from the officials to this finding.

**DAMASCUS TOWNSHIP
HENRY 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	Improper certification of funds ORC 5705.41(D)	Yes	



Mary Taylor, CPA
Auditor of State

DAMASCUS TOWNSHIP

HENRY 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
JANUARY 29, 2008**