



**HOWARD TOWNSHIP  
KNOX COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2005**



**Auditor of State  
Betty Montgomery**



HOWARD TOWNSHIP  
KNOX COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
<b>Basic Financial Statements:</b>	
Statement of Net Assets – Cash Basis – December 31, 2005 .....	9
Statement of Activities – Cash Basis – For the Year Ended December 31, 2005.....	10
Statement of Cash Basis Assets and Fund Balances – Governmental Funds - December 31, 2005.....	11
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances – Governmental Funds For the Year Ended December 31, 2005.....	12
Statement of Receipts, Disbursements, and Changes in Fund Balance Budget and Actual (Budget Basis) – General Fund For the Year Ended December 31, 2005.....	13
Statement of Receipts, Disbursements, and Changes in Fund Balance Budget and Actual (Budget Basis) – Gasoline Tax Fund For the Year Ended December 31, 2005.....	14
Statement of Receipts, Disbursements, and Changes in Fund Balance Budget and Actual (Budget Basis) – Road and Bridge Fund For the Year Ended December 31, 2005.....	15
Statement of Receipts, Disbursements, and Changes in Fund Balance Budget and Actual (Budget Basis) – Permissive Motor Vehicle License Tax Fund For the Year Ended December 31, 2005.....	16
Notes to the Financial Statements .....	17
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	29

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Howard Township, Knox County, Ohio, (the Township) as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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 opinions.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements basis referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Howard Township, Knox County, Ohio, as of December 31, 2005, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund, the Gasoline Tax Fund, the Road and Bridge Fund and the Permissive Motor Vehicle License Tax Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended December 31, 2005, the Township implemented the cash basis of accounting.

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In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2006, 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

July 21, 2006

**HOWARD TOWNSHIP  
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

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This discussion and analysis of the financial performance of Howard Township, Knox County, Ohio, (the Township) provides an overall review of the Township's financial activities for the year ended December 31, 2005, within the limitations of the Township's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Township's financial performance.

**Highlights**

Key highlights for 2005 are as follows:

Net assets of governmental activities increased \$25,245 from the prior year due to the Township spending more money on road work in 2004 as compared to 2005.

The Township's general receipts are primarily property taxes. Property tax receipts for 2005 changed very little compared to 2004 as development within the Township has slowed.

The Township made improvement of site facilities by removing an underground storage fuel tank and replacing it with an above ground tank. Also, the Township replaced approximately \$100,000 of old equipment.

The Township entered into debt in 2005 for the purchase of road equipment in the amount of \$45,000.

In 2004 the Township received monies from the Federal Emergency Management Agency (FEMA) to repair bridges damaged by storms and flood waters. The majority of this money was spent on these projects in fiscal year 2005.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Township's cash basis of accounting.

**Report Components**

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

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Township as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**HOWARD TOWNSHIP  
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

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**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Township has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Township's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

**Reporting the Township as a Whole**

The statement of net assets and the statement of activities reflect how the Township did financially during 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balances of the governmental activities of the Township at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Township's general receipts.

These statements report the Township's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Township's financial health. Over time, increases or decreases in the Township's cash position is one indicator of whether the Township's financial health is improving or deteriorating. When evaluating the Township's financial condition, you should also consider other nonfinancial factors as well such as the Township's property tax base, the condition of the Township's capital assets and infrastructure, the extent of the Township's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

The Township's Statement of Net Assets describes the Governmental activities of the Township, as there are no Business Type activities for Howard Township.

Governmental activities are mainly State and federal grants and property taxes. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

**Reporting the Township's Most Significant Funds**

Fund financial statements provide detailed information about the Township's major funds – not the Township as a whole. The Township establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose.



**HOWARD TOWNSHIP  
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

Governmental Funds - All of the Township's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Township's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Township's programs. The Township's governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Township's major governmental funds are the General Fund, the Gasoline Tax Fund, the Road and Bridge Fund, and the Permissive Motor Vehicle License Tax Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

**The Township as a Whole**

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

(Table 1)

**Net Assets**

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Cash and Cash Equivalents	\$ 608,893	\$ 583,648
Total Assets	608,893	583,648
<b>Net Assets</b>		
Restricted for:		
Debt Service	883	764
Other Purposes	331,865	307,747
Unrestricted	276,145	275,137
Total Net Assets	\$608,893	\$583,648

As mentioned previously, net assets of governmental activities increased \$ 25,245 during 2005.

Table 2 reflects the changes in net assets in 2005. Since the Township did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

HOWARD TOWNSHIP  
KNOX COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)

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(Table 2)  
Changes in Net Assets

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$47,069
Operating Grants and Contributions	145,825
Total Program Receipts	<u>192,894</u>
General Receipts:	
Property and Other Local Taxes	275,192
Grants and Entitlements Not Restricted to Specific Programs	175,044
Notes Issued	45,000
Interest	5,437
Miscellaneous	3,317
Total General Receipts	<u>503,990</u>
Total Receipts	<u>696,884</u>
Disbursements:	
General Government	191,213
Public Health Services	3,000
Public Works	353,404
Capital Outlay	114,141
Principal Retirement	9,344
Interest and Fiscal Charges	537
Total Disbursements	<u>671,639</u>
Increase in Net Assets	25,245
Net Assets, January 1, 2005	<u>583,648</u>
Net Assets, December 31, 2005	<u>\$608,893</u>

Program receipts represent only 27.7 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money.

General receipts represent 72.3 percent of the Township's total governmental activities receipts, and of this amount, over 39.5 percent are local taxes. Local Government and Revenue Assistance monies and estate tax entitlements make up the balance of the Township's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Township and the support services provided for the other Township activities. These include the costs of the Board of Trustees, fiscal officer, administration department, finance department, and zoning department as well as internal services such as payroll and purchasing. Since these costs do not represent direct services to residents, we try to limit these costs.

**HOWARD TOWNSHIP  
KNOX COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)**

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**Governmental Activities**

If you look at the Statement of Activities you will see that the first column lists the major services provided by the Township. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for Public Works. General government also represents a significant cost, about 28 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Township that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

**Governmental Activities**

	Total Cost Of Services 2005	Net Cost of Services 2005
General Government	\$191,213	\$144,144
Public Health Services	3,000	3,000
Public Works	353,404	207,579
Capital Outlay	114,141	114,141
Principal Retirement	9,344	9,344
Interest and Fiscal Charges	537	537
<b>Total Expenses</b>	<b>\$671,639</b>	<b>\$478,745</b>

The dependence upon property tax receipts is apparent as governmental activities are supported through these general receipts.

**The Township's funds**

Total governmental funds had receipts of \$696,884 and disbursements of \$671,639. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$1,009.

**General Fund Budgeting Highlights**

The Township's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted funds are the General Fund, the Gasoline Tax Fund, the Road and Bridge Fund, and the Permissive Motor Vehicle License Tax Fund.

The Township kept spending well within budgeted amounts.

HOWARD TOWNSHIP  
KNOX COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED  
(Continued)

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**Capital Assets and Debt Administration**

Capital Assets

The Township does not currently keep track of its capital assets and infrastructure.

At December 31, 2005, the Township's outstanding debt included a \$45,000 note for three years for purchase of equipment. Refer to Note 10 to the financial statements.

**Current Issues**

The challenge for all Governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and have very little industry to support the tax base.

**Contacting the Township's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to reflect the Township's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Carol Gilmore, Fiscal Officer, Howard Township, P. O. Box 266, Howard, OH 43028.

HOWARD TOWNSHIP  
KNOX COUNTY

STATEMENT OF NET ASSETS - CASH BASIS  
DECEMBER 31, 2005

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	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$608,893</u>
<i>Total Assets</i>	<u><u>\$608,893</u></u>
<b>Net Assets</b>	
Restricted for:	
Debt Service	883
Other Purposes	331,865
Unrestricted	<u>276,145</u>
<i>Total Net Assets</i>	<u><u>\$608,893</u></u>

See accompanying notes to the basic financial statements

**HOWARD TOWNSHIP  
KNOX COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions
			Governmental Activities
<b>Governmental Activities</b>			
General Government	\$191,213	\$47,069	\$ (144,144)
Public Works	353,404	0	(207,579)
Health	3,000	0	(3,000)
Capital Outlay	114,141	0	(114,141)
Debt Service:			
Principal	9,344	0	(9,344)
Interest	537	0	(537)
<i>Total Governmental Activities</i>	<b>\$ 671,639</b>	<b>47,069</b>	<b>145,825</b>
		<b>General Receipts</b>	
		Property Taxes Levied for:	
		General Purposes	266,488
		Other Purposes	8,704
		Grants not Restricted to Specific Programs	175,044
		Notes Issued	45,000
		Interest	5,437
		Miscellaneous	3,317
		<i>Total General Receipts</i>	503,990
		Change in Net Assets	25,245
		<i>Net Assets Beginning of Year</i>	583,648
		<i>Net Assets End of Year</i>	\$608,893

See accompanying notes to the basic financial statements

HOWARD TOWNSHIP  
KNOX COUNTY

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2005**

	General	Gasoline Tax Fund	Road and Bridge Fund	Permissive Motor Vehicle License Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$276,145	\$100,494	\$61,222	\$69,204	\$101,828	\$608,893
<i>Total Assets</i>	<u>\$276,145</u>	<u>\$100,494</u>	<u>\$61,222</u>	<u>\$69,204</u>	<u>\$101,828</u>	<u>\$608,893</u>
<b>Fund Balances</b>						
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	276,145	0	0	0	0	276,145
Special Revenue Funds	0	100,494	61,222	69,204	100,945	331,865
Debt Service Fund	0	0	0	0	883	883
<i>Total Fund Balances</i>	<u>\$276,145</u>	<u>\$100,494</u>	<u>\$61,222</u>	<u>\$69,204</u>	<u>\$101,828</u>	<u>\$608,893</u>

See accompanying notes to the basic financial statements

**HOWARD TOWNSHIP  
KNOX COUNTY**

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

	General	Gasoline Tax	Road and Bridge	Permissive Motor Vehicle License	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>						
Property and Other Local Taxes	\$53,048	\$0	\$202,146	\$0	\$10,000	\$265,194
Licenses, Permits and Fees	47,069	0	0	0	0	47,069
Intergovernmental	158,174	92,050	13,540	29,521	27,585	320,870
Special Assessments	0	0	0	0	1,293	1,293
Interest	3,778	1,095	0	0	564	5,437
Other	2,294	1	3,142	0	6,584	12,021
<i>Total Receipts</i>	<u>264,363</u>	<u>93,146</u>	<u>218,828</u>	<u>29,521</u>	<u>46,026</u>	<u>651,884</u>
<b>Disbursements</b>						
Current:						
General Government	191,213	0	0	0	0	191,213
Public Works	0	48,532	215,292	3,286	86,294	353,404
Health	3,000	0	0	0	0	3,000
Capital Outlay	114,141	0	0	0	0	114,141
Debt Service:						
Principal Retirement	0	0	0	0	9,343	9,343
Interest and Fiscal Charges	0	0	0	0	538	538
<i>Total Disbursements</i>	<u>308,354</u>	<u>48,532</u>	<u>215,292</u>	<u>3,286</u>	<u>96,175</u>	<u>671,639</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(43,991)</u>	<u>44,614</u>	<u>3,536</u>	<u>26,235</u>	<u>(50,149)</u>	<u>(19,755)</u>
<b>Other Financing Sources (Uses)</b>						
Notes Issued	45,000	0	0	0	0	45,000
<i>Total Other Financing Sources (Uses)</i>	<u>45,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>45,000</u>
<i>Net Change in Fund Balances</i>	1,009	44,614	3,536	26,235	(50,149)	25,245
<i>Fund Balances Beginning of Year</i>	<u>275,137</u>	<u>55,880</u>	<u>57,686</u>	<u>42,968</u>	<u>151,977</u>	<u>583,648</u>
<i>Fund Balances End of Year</i>	<u><u>\$276,146</u></u>	<u><u>\$100,494</u></u>	<u><u>\$61,222</u></u>	<u><u>\$69,203</u></u>	<u><u>\$101,828</u></u>	<u><u>\$608,893</u></u>

See accompanying notes to the basic financial statements



**HOWARD TOWNSHIP  
KNOX COUNTY**

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$55,300	\$55,300	\$53,049	(\$2,251)
Licenses, Permits and Fees	46,206	46,206	47,069	863
Intergovernmental	93,890	93,890	158,174	64,284
Interest	5,305	5,305	3,778	(1,527)
Other	3,596	3,596	2,293	(1,303)
<i>Total receipts</i>	<u>204,297</u>	<u>204,297</u>	<u>264,363</u>	<u>60,066</u>
<b>Disbursements</b>				
Current:				
General Government	341,434	341,434	191,213	150,221
Public Works	10,000	10,000	0	10,000
Health	3,000	3,000	3,000	0
Capital Outlay	125,000	125,000	114,141	10,859
<i>Total Disbursements</i>	<u>479,434</u>	<u>479,434</u>	<u>308,354</u>	<u>171,080</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(275,137)</u>	<u>(275,137)</u>	<u>(43,991)</u>	<u>231,146</u>
<b>Other Financing Sources (Uses)</b>				
Notes Issued	0	0	45,000	45,000
<i>Net Change in Fund Balance</i>	<u>(275,137)</u>	<u>(275,137)</u>	<u>1,009</u>	<u>276,146</u>
<i>Fund Balance Beginning of Year</i>	<u>275,137</u>	<u>275,137</u>	<u>275,137</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$276,146</u></u>	<u><u>\$276,146</u></u>

See accompanying notes to the basic financial statements

**HOWARD TOWNSHIP  
KNOX COUNTY**

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Receipts</b>				
Intergovernmental	\$ 50,516	\$ 50,516	\$ 92,050	\$ 41,534
Interest	1,168	1,168	1,095	(73)
Other	-	-	1	1
<i>Total receipts</i>	<u>51,684</u>	<u>51,684</u>	<u>93,146</u>	<u>41,462</u>
<b>Disbursements</b>				
Current:				
Public Works	107,564	107,564	48,532	59,032
<i>Total Disbursements</i>	<u>107,564</u>	<u>107,564</u>	<u>48,532</u>	<u>59,032</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(55,880)</u>	<u>(55,880)</u>	<u>44,614</u>	<u>100,494</u>
<i>Net Change in Fund Balance</i>	(55,880)	(55,880)	44,614	100,494
<i>Fund Balance Beginning of Year</i>	<u>55,880</u>	<u>55,880</u>	<u>55,880</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$100,494</u></u>	<u><u>\$100,494</u></u>

See accompanying notes to the basic financial statements

**HOWARD TOWNSHIP  
KNOX COUNTY**

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$209,100	\$209,100	\$202,146	(\$6,954)
Intergovernmental	0	0	13,540	13,540
Other	0	0	3,142	3,142
<i>Total receipts</i>	<u>209,100</u>	<u>209,100</u>	<u>218,828</u>	<u>9,728</u>
<b>Disbursements</b>				
Current:				
Public Works	264,786	264,786	215,292	49,494
Capital Outlay	2,000	2,000	0	2,000
<i>Total Disbursements</i>	<u>266,786</u>	<u>266,786</u>	<u>215,292</u>	<u>51,494</u>
<i>Net Change in Fund Balance</i>	(57,686)	(57,686)	3,536	61,222
<i>Fund Balance Beginning of Year</i>	<u>57,686</u>	<u>57,686</u>	<u>57,686</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$61,222</u></u>	<u><u>\$61,222</u></u>

See accompanying notes to the basic financial statements

**HOWARD TOWNSHIP  
KNOX COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
PERMISSIVE MOTOR VEHICLE LICENSE TAX FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Intergovernmental	\$ -	\$ -	\$ 29,521	29,521
<b>Disbursements</b>				
Current:				
Public Works	42,968	42,968	3,286	39,682
<i>Net Change in Fund Balance</i>	(42,968)	(42,968)	26,235	69,203
<i>Fund Balance Beginning of Year</i>	42,968	42,968	42,968	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$69,203</u>	<u>\$69,203</u>

See accompanying notes to the basic financial statements

**HOWARD TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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**Note 1 – Reporting Entity**

Howard Township, Knox County, Ohio (the Township), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly elected three-member Board of Trustees. The Township also has an elected Fiscal Officer.

The reporting entity is comprised of the primary government to ensure that the financial statements are not misleading.

**A. Primary Government**

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Township. The Township provides general government services, maintenance of Township roads and bridges, and cemetery maintenance. Fire protection is provided by the Eastern Knox County Fire District. Police protection is provided by Knox County Sheriff.

**B. Jointly Governed Organization:**

The Township participates in the Eastern Knox County Joint Fire District which is a jointly governed organization. See Note 12.

**Note 2 – Summary of Significant Accounting Policies**

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Township's accounting policies.

**A. Basis of Presentation**

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Township has no business-type activities.

**HOWARD TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies** (continued)

The statement of net assets presents the cash balance of the governmental activities of the Township at year end. The statement of activities compares disbursements with program receipts for each of the Township's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Township is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program and receipts of interest earned on grants that is required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Township's general receipts.

Fund Financial Statements

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

B. Fund Accounting

The Township uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use.

Governmental Funds

The Township classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Township's major governmental funds are the General Fund, Gasoline Tax, Road and Bridge, and Permissive Motor Vehicle License Tax Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the Township account for grants and other resources whose use is restricted to a particular purpose.

C. Basis of Accounting

The Township's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Township's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Township are described in the appropriate section in this note.

**HOWARD TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies** (continued)

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**D. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Township may appropriate.

The appropriations ordinance is the Township's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the Township, the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Fiscal Officer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Township.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Township during the year.

**E. Cash**

To improve cash management, cash received by the Township is pooled and invested. Individual fund integrity is maintained through Township records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During 2005, the Township maintained a money market account and checking account.

Interest earnings are allocated to Township funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited during 2005 was \$ 3,778 to the General Fund, \$564 to Other Governmental Funds and \$1,095 to the Gasoline Fund.

**F. Restricted Assets**

Cash and cash equivalents are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

**HOWARD TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 2 – Summary of Significant Accounting Policies** (continued)

**G. Inventory and Prepaid Items**

The Township reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements

**I. Interfund Receivables/Payables**

The Township reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements

**J. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's cash basis of accounting.

**K. Employer Contributions to Cost-Sharing Pension Plans**

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

**L. Long-Term Obligations**

The Township's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net Assets restricted for Other Purposes for the Township include amounts restricted for road work based on external restrictions imposed by laws and regulations. The Township's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

**Note 3 – Change in Presentation**

A. For the year ended December 31, 2005, the Township implemented the cash basis of accounting as described in Note 2. The financial statements now include entity-wide financial statements, which present information for the Township as a whole, and fund financial statements, which present information for individual major funds rather than by fund type.



**HOWARD TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 3 – Change in Presentation** (continued)

B. For 2005, the Township has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, “*Deposits and Investment Risk Disclosure*”. GASB Statement No. 40 creates new disclosure requirements for deposits and investments related to credit risk concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the Township’s financial statements for fiscal year 2005.

**Note 4 – Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for all funds are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. There were no outstanding encumbrances at the end of the year.

**Note 5 – Deposits and Investments**

Monies held by the Township are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Township treasury. Active monies must be maintained either as cash in the Township treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Trustees have identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Township can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;

**HOWARD TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 5 – Deposits and Investments** (continued)

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Protection of the Township's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by collateral pledged to the Township by the financial institution, or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Township, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Township or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end, the Township had no undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

At year end, the carrying amount of the Township's deposits was \$608,893. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosure*", at December 31, 2005, \$525,024 of the Township's bank balance of \$625,024 was exposed to custodial risk as discussed below, while \$100,000 was covered by the Federal Deposit Insurance Corporation (FDIC). Although all State statutory requirements for the deposit of money has been followed, noncompliance with federal requirements could potentially subject the Township to a successful claim by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the Township's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Township.

**Deposits**

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

**HOWARD TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 5 – Deposits and Investments** (continued)

Investments

The Township has no investment policy and is limited to complying with state statute.

**Note 6 – Property Taxes**

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Township. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

The full tax rate for all Township operations for the year ended December 31, 2005, was 2.1 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	
Residential	\$138,517,980
Agriculture	6,358,860
Commercial/Industrial/Mineral	3,811,060
Public Utility Property	
Real	0
Personal	4,273,805
Tangible Personal Property	0
Total Assessed Value	<u><u>\$152,961,705</u></u>

**HOWARD TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 7– Risk Management**

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

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

The 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**

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

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

**Property Coverage**

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

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

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

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

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

**HOWARD TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

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**Note 7– Risk Management** (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, 2005 and 2004.

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

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

The Casualty Coverage assets and retained earnings above include approximately \$11.6 million and \$10.3 million of unpaid claims to be billed to approximately 950 member townships in the future, as of December 31, 2005 and 2004, respectively. OTARMA will collect these amounts in future annual premium billings when OTARMA's related liabilities are due for payment. The Township's share of these unpaid claims is approximately \$6,713 for 2005 and \$6,283 for 2004.

**Note 8 – Defined Benefit Pension Plan**

A. Ohio Public Employees Retirement System

The Township participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

HOWARD TOWNSHIP  
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)

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**Note 8 – Defined Benefit Pension Plan** (continued)

A. Ohio Public Employees Retirement System (continued)

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The Township's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the Township's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Township's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$12,395, \$11,721, and \$10,909 respectfully. The full amount has been contributed for 2005, 2004 and 2003. Contributions to the member-directed plan for 2005 were \$12,395 made by the Township and \$11,302 made by the plan members.

**Note 9 - Postemployment Benefits**

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$210,421. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

**HOWARD TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Continued)**

**Note 9 - Postemployment Benefits** (continued)

A. Ohio Public Employees Retirement System (continued)

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

**Note 10 - Notes Payable**

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

A summary of the note transactions for the year ended December 31, 2005, follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
<u>Governmental Activities</u>					
<u>Equipment Note</u>					
2005 Issue	4.25%	\$0	\$45,000	\$0	\$45,000

All note proceeds had been spent at December 31, 2005.

**Payment Schedule**

	Equipment Notes	
	Principal	Interest
2006	\$ 14,347	\$ 1,965
2007	\$ 15,009	\$ 1,303
2008	\$ 15,644	\$ 667

**Note 11 – Contingent Liabilities**

The Township is a defendant in a lawsuit over a conditional use permit. Although management cannot presently determine the outcome of this suit, management believes that the resolution of these matters will not materially adversely affect the Township's financial condition.

**Note 12 – Jointly Governed Organization**

The Eastern Knox County Joint Fire District (The District) is a jointly governed organization pursuant to Ohio Revised Code section 505.371. The District was formed in 2001 and consists of Brown, Butler, Harrison, Howard, Jefferson, and Union Townships and the Villages of Brinkhaven and Danville. The Board consists of a trustee from each township and village and an at large member appointed by the vote of the District Board. Revenues are generated from a five mil operating levy. In 2003, Howard Township transferred the remaining balance in the Fire Fund to the District. Also in 2003, Howard Township signed a lease with the District for Fire House #2 for a term of 25 years.

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Howard Township, Knox County, Ohio, (the Township) as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements and have issued our report thereon dated July 21, 2006, wherein we noted the Township implemented the cash basis of accounting. We also noted that 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 to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

#### **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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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Howard Township  
Knox County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and On Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

July 21, 2006



**Auditor of State  
Betty Montgomery**

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**HOWARD TOWNSHIP**

**KNOX COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
SEPTEMBER 5, 2006**