



**Auditor of State
Betty Montgomery**

SCOTT TOWNSHIP
ADAMS COUNTY

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**Auditor of State
Betty Montgomery**

Scott Township
Adams County
6493 Tri-County Road
Seaman, Ohio 45679

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 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 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.

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Betty Montgomery
Auditor of State

November 7, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Scott Township
Adams County
6493 Tri-County Road
Seaman, Ohio 45679

To the Board of Trustees:

We have audited the accompanying financial statements of Scott Township, Adams County, Ohio (the Township), as of and for the years ended December 31, 2005 and 2004. 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.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004 and 2005. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements. Since this Township does not use GAAP to measure financial statement amounts, 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.

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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, 2005 and 2004 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, 2005 and 2004, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Scott Township, Adams County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the year ended December 31, 2005 and 2004. 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 November 7, 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.



Betty Montgomery
Auditor of State

November 7, 2006

**SCOTT TOWNSHIP
ADAMS COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Local Taxes	\$11,808	\$106,005	\$0	\$117,813
Intergovernmental	27,026	105,251	0	132,277
Earnings on Investments	635	1,271	87	1,993
Other Revenue	118	3,542	0	3,660
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	39,587	216,069	87	255,743
Cash Disbursements:				
Current:				
General Government	23,352	95	0	23,447
Public Safety	0	37,165	0	37,165
Public Works	1,697	98,320	0	100,017
Health	3,740	10,713	850	15,303
Debt Service:				
Redemption of Principal	0	53,561	0	53,561
Interest and Fiscal Charges	0	5,352	0	5,352
Capital Outlay	0	11,948	0	11,948
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	28,789	217,154	850	246,793
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	10,798	(1,085)	(763)	8,950
Other Financing Receipts:				
Other Sources	0	20	0	20
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts	0	20	0	20
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	10,798	(1,065)	(763)	8,970
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>	<hr/>
	15,606	108,120	5,837	129,563
Fund Cash Balances, December 31	<hr/> \$26,404	<hr/> \$107,055	<hr/> \$5,074	<hr/> \$138,533

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

**SCOTT TOWNSHIP
ADAMS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Local Taxes	\$11,397	\$109,211	\$0	\$0	\$120,608
Intergovernmental	19,168	102,780	0	0	121,948
Earnings on Investments	512	1,024	0	174	1,710
Other Revenue	47	3,844	0	0	3,891
	<u>31,124</u>	<u>216,859</u>	<u>0</u>	<u>174</u>	<u>248,157</u>
Cash Disbursements:					
Current:					
General Government	26,830	755	0	0	27,585
Public Safety	0	30,682	0	0	30,682
Public Works	1,979	113,423	0	0	115,402
Health	6,478	19,132	0	0	25,610
Debt Service:					
Redemption of Principal	0	23,072	0	0	23,072
Interest and Fiscal Charges	0	5,554	0	0	5,554
Capital Outlay	0	6,113	75,955	0	82,068
	<u>35,287</u>	<u>198,731</u>	<u>75,955</u>	<u>0</u>	<u>309,973</u>
Total Receipts Over/(Under) Disbursements	<u>(4,163)</u>	<u>18,128</u>	<u>(75,955)</u>	<u>174</u>	<u>(61,816)</u>
Other Financing Receipts:					
Proceeds from Sale of Public Debt:					
Other Debt Proceeds	0	0	75,955	0	75,955
	<u>0</u>	<u>0</u>	<u>75,955</u>	<u>0</u>	<u>75,955</u>
Total Other Financing Receipts	<u>0</u>	<u>0</u>	<u>75,955</u>	<u>0</u>	<u>75,955</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(4,163)	18,128	0	174	14,139
Fund Cash Balances, January 1	19,769	89,992	0	5,663	115,424
Fund Cash Balances, December 31	<u>\$15,606</u>	<u>\$108,120</u>	<u>\$0</u>	<u>\$5,837</u>	<u>\$129,563</u>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$101</u>	<u>\$0</u>	<u>\$0</u>	<u>\$101</u>

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

**SCOTT TOWNSHIP
ADAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

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 the Scott Township, Adams County, Ohio (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, and fire protection.

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

B. Basis of Accounting

These financial statements follow the basis of accounting 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 Deposits

The Township funds are deposited in an interest-bearing checking account and certificates of deposit with local commercial banks. Certificates of deposit are valued at cost.

D. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are 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 trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

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

Fire Levy Fund - This fund receives proceeds from the property tax levy for providing fire protection to Township residents.

**SCOTT TOWNSHIP
ADAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Capital Project Fund

This fund accounts for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds).

4. Permanent Fund

This fund received money from a Hopkins family cemetery bequest and earns interest from a certificate of deposit.

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. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not encumber certain commitments required by Ohio law.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

**SCOTT TOWNSHIP
ADAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

2. EQUITY IN POOLED CASH DEPOSITS

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

	2005	2004
Demand deposits	\$133,533	\$124,563
Certificates of deposit	5,000	5,000
Total deposits	\$138,533	\$129,563

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$26,620	\$39,587	\$12,967
Special Revenue	179,185	216,089	36,904
Permanent	100	87	(13)
Total	\$205,905	\$255,763	\$49,858

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$42,000	\$28,789	\$13,211
Special Revenue	271,696	217,154	54,542
Permanent	0	850	(850)
Total	\$313,696	\$246,793	\$66,903

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$26,577	\$31,124	\$4,547
Special Revenue	171,789	216,859	45,070
Capital Projects	125,000	75,955	(49,045)
Permanent	100	174	74
Total	\$323,466	\$324,112	\$646

**SCOTT TOWNSHIP
ADAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$45,000	\$35,287	\$9,713
Special Revenue	247,571	198,832	48,739
Capital Projects	125,000	75,955	49,045
Permanent	700	0	700
Total	\$418,271	\$310,074	\$108,197

4. PROPERTY TAX

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

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Township.

5. DEBT

On December 2, 2003, Scott Township issued a \$175,000 Fire House Bond which was purchased by First State Bank of Adams County. The bond was issued to help finance the construction of a new fire house. The proceeds from this bond were not paid to the Township upon issuance of the bonds, instead amounts were obtained by the Township from the bank on a draw basis, with the Township drawing the funds as needed. During 2004 the project was completed, drawing a total of \$127,955, the last draw being made on March 30, 2004.

The bond called for 4% interest to be paid. This rate was charged on the outstanding amount as the draws were made and will be charged on the remaining schedule of the debt. The bond schedule called for a 10 year payout, however, with the reduced amount drawn and extra principal payment made in 2005, the revised amortization schedule from First State Bank of Adams County results in the debt being paid off in approximately 4 years.

**SCOTT TOWNSHIP
ADAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

5. DEBT (Continued)

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
General Obligation Bonds	\$62,716	4%

Amortization of the above debt, including interest, is scheduled as follows:

	General Obligation Bonds
Year ending December 31:	
2006	\$20,008
2007	19,309
2008	18,612
2009	10,625
Total	\$68,554

6. LEASE

In 2003 the Township entered into a lease to purchase road equipment. The capital lease outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
Ford Tractor	\$12,517	4.75%

Amortization of the above lease, including interest, is scheduled as follows:

	Ford Tractor
Year ending December 31:	
2006	\$6,708
2007	6,707
Total	\$13,415

7. RETIREMENT SYSTEMS

The Township's officials and employee belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OPERS members contributed 8.5 percent of their gross salaries. The Township contributed an amount equaling 13.55 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2005.

**SCOTT TOWNSHIP
ADAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

8. 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.

**SCOTT TOWNSHIP
ADAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

8. RISK MANAGEMENT (Continued)

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

Financial Position

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

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$30,485,638	\$28,132,620
Liabilities	<u>(12,344,576)</u>	<u>(11,086,379)</u>
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	<u>(1,406,031)</u>	<u>(543,176)</u>
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 \$10,815 in 2004 and \$10,012 in 2005.

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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***

Scott Township
Adams County
6493 Tri-County Road
Seaman, Ohio 45679

To the Board of Trustees:

We have audited the financial statements of Scott Township, Adams County, Ohio (the Township), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated November 7, 2006, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted 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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as 2005-001 and 2005-002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the Township's management dated November 7, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2005-001 and 2005-002. In a separate letter to the Township's management dated November 7, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, 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

November 7, 2006

SCOTT TOWNSHIP
ADAMS COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004

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

FINDING NUMBER 2005-001

Noncompliance Citation / Reportable Condition – Debt

Ohio Revised Code, Section 505.42, requires bond proceeds to be placed in the township treasury. Such proceeds shall be paid out on the order of the board of township trustees for the purpose of the bond issuance.

On December 2, 2003, Scott Township Trustees passed resolution 2003-09 authorizing the issuance of a bond for fire house construction for \$175,000. This bond was sold to the First State Bank of Adams County and was to be repaid in 10 years with interest payments semiannually and principal annually.

The Township did not receive the \$175,000 proceeds in one lump sum from the bank; instead the Township and bank arranged a "line of credit" in the amount of \$175,000 from which the Township could draw funds as needed for payments for this project. Moreover, the Township did not draw the entire \$175,000 but used only \$127,955 as of August 29, 2006. The bank indicated that without a change in the legal agreement, the remaining amount on the line of credit is still available for use. However, the Township indicated that they are finished with this project and do not plan on drawing any additional funds on this line of credit.

During the audit period the Township was required to begin making principal and interest payments. The principal payment in 2005 was made in excess of the required amount. Due to the extra principal paid, a revised amortization schedule was requested by the auditors from the bank for the Township's use to determine that requirements for budgeting and appropriating of funds for future payments are met.

We recommend the Township's legal counsel work with the bank to restructure the line of credit into a debt instrument in compliance with the Ohio Revised Code. We also recommend the Trustees review the revised amortization schedule to obtain an understanding of required payments and monitor carefully this information in the future to assure they have not overpaid the bank. Additionally, they can use the revised amortization schedule to adequately plan and budget to provide adequate cash flows to make payments in the future.

FINDING NUMBER 2005-002

Noncompliance Citation / Reportable Condition

Ohio Revised Code, Section 5705.41(D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

**FINDING NUMBER 2005-002
(Continued)**

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.
2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Contrary to the above requirement, the availability of funds was not certified for 56% (50% in 2004 and 62% in 2005) of the expenditures tested. Of these transactions 43% had then and now language on the purchase orders. However, the expenditures were over \$3,000 and were not specifically approved by the legislative authority by resolution. We recommend expenditures receive prior certification, however in instances where this is not practical we recommend then and now certificates over \$3,000 be approved by resolution by legislative authority. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash balances.

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

We recommend the Township officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements.

The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

We did not receive a response from Officials to the findings reported above.

**SCOTT TOWNSHIP
ADAMS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Issuance of bond/line of credit	No	Not corrected – see finding 2005-001
2003-002	Ohio Revised Code Section 5705.41(B) – expenditures exceeded appropriations	Yes	
2003-003	Ohio Revised Code Section 5705.41(D) – invoice dates preceded purchase order dates	No	Not corrected – see finding 2005-002



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SCOTT TOWNSHIP

ADAMS 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
NOVEMBER 30, 2006**