



Mary Taylor, CPA
Auditor of State

**TULLY TOWNSHIP
VAN WERT COUNTY**

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Mary Taylor, CPA
Auditor of State

Tully Township
Van Wert County
PO Box 254
Convoy, Ohio 45832

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

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September 14, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Tully Township
Van Wert County
PO Box 254
Convoy, Ohio 45832

To the Board of Trustees:

We have audited the accompanying financial statements of Tully Township, Van Wert County, (the Township), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP requires presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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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, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

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

The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2007, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

September 14, 2007

**TULLY TOWNSHIP
VAN WERT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Other Local Taxes	\$28,550	\$59,014		\$87,564
Licenses, Permits, and Fees	1,025	9,480		10,505
Intergovernmental	48,024	115,169	\$37,917	201,110
Earnings on Investments	618	317		935
Payment in Lieu of Taxes			50,052	50,052
Miscellaneous	2,392	4,850		7,242
Total Cash Receipts	<u>80,609</u>	<u>188,830</u>	<u>87,969</u>	<u>357,408</u>
Cash Disbursements:				
Current:				
General Government	61,700	1,297		62,997
Public Safety	15,667	22,198		37,865
Public Works		167,496		167,496
Health	505	18,994		19,499
Capital Outlay		160	101,483	101,643
Debt Service:				
Redemption of Principal		5,362		5,362
Interest and Other Fiscal Charges		1,751		1,751
Total Cash Disbursements	<u>77,872</u>	<u>217,258</u>	<u>101,483</u>	<u>396,613</u>
Total Receipts Over/(Under) Disbursements	<u>2,737</u>	<u>(28,428)</u>	<u>(13,514)</u>	<u>(39,205)</u>
Other Financing Receipts / (Disbursements):				
Other Financing Sources		364		364
Total Other Financing Receipts / (Disbursements)		<u>364</u>		<u>364</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	2,737	(28,064)	(13,514)	(38,841)
Fund Cash Balances, January 1	<u>(1,239)</u>	<u>125,202</u>	<u>26,926</u>	<u>150,889</u>
Fund Cash Balances, December 31	<u>\$1,498</u>	<u>\$97,138</u>	<u>\$13,412</u>	<u>\$112,048</u>

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

**TULLY TOWNSHIP
VAN WERT COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Fiduciary Fund Type
	Private Purpose Trust
Non-Operating Cash Receipts:	
Earnings on Investments	\$10
Total Non-Operating Cash Receipts	10
Fund Cash Balance, January 1	4,262
Fund Cash Balance, December 31	\$4,272

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

**TULLY TOWNSHIP
VAN WERT COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Other Local Taxes	\$28,248	\$61,013		\$89,261
Licenses, Permits, and Fees	525	17,270		17,795
Intergovernmental	30,725	106,059		136,784
Earnings on Investments	579	320		899
Payment in Lieu of Taxes			\$49,224	49,224
Miscellaneous	218	1,100		1,318
Total Cash Receipts	<u>60,295</u>	<u>185,762</u>	<u>49,224</u>	<u>295,281</u>
Cash Disbursements:				
Current:				
General Government	75,378	1,398	9,906	86,682
Public Safety	15,075	21,693		36,768
Public Works		138,610		138,610
Health	505	9,420		9,925
Capital Outlay		1,751	29,250	31,001
Debt Service:				
Redemption of Principal		5,362		5,362
Interest and Other Fiscal Charges		1,991		1,991
Total Cash Disbursements	<u>90,958</u>	<u>180,225</u>	<u>39,156</u>	<u>310,339</u>
Total Receipts Over/(Under) Disbursements	<u>(30,663)</u>	<u>5,537</u>	<u>10,068</u>	<u>(15,058)</u>
Other Financing Receipts / (Disbursements):				
Other Financing Sources		1,500		1,500
Total Other Financing Receipts / (Disbursements)		<u>1,500</u>		<u>1,500</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	(30,663)	7,037	10,068	(13,558)
Fund Cash Balances, January 1	<u>29,424</u>	<u>118,165</u>	<u>16,858</u>	<u>164,447</u>
Fund Cash Balances, December 31	<u>(\$1,239)</u>	<u>\$125,202</u>	<u>\$26,926</u>	<u>\$150,889</u>

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

TULLY TOWNSHIP
VAN WERT COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Fiduciary Fund Type</u>
	<u>Private Purpose Trust</u>
Non-Operating Cash Receipts:	
Earnings on Investments	\$10
Total Non-Operating Cash Receipts	<u>10</u>
Fund Cash Balance, January 1	<u>4,252</u>
Fund Cash Balance, December 31	<u><u>\$4,262</u></u>

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

**TULLY TOWNSHIP
VAN WERT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Tully Township, Van Wert County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Village of Convoy to provide fire and ambulance services.

The Township participates in Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. OTARMA is a risk-sharing pool available to Ohio townships for insurance coverage. Note 7 to the financial statements provides additional information for this risk pool membership.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

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 private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

Road and Bridge Fund - This fund receives property tax money for constructing, maintaining, and repairing Township roads and bridges.

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

**TULLY TOWNSHIP
VAN WERT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Capital Project Funds

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

Issue II Fund - The Township received a grant from the State of Ohio to repave sections of State Line, Payne, and Mentzer-Church Roads.

Permanent Improvement Fund – The Township received payments in lieu of taxes for construction of certain roads, repair and maintenance of those roads, and related infrastructure.

4. Fiduciary Funds

Fiduciary funds include private purpose trust funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Township's own programs.

The Township's private purpose trust funds are for the benefit of certain individuals.

Cemetery Bequest Fund – A non-expendable trust fund – Principal amounts donated are maintained in perpetuity. Investment earnings are used for grave upkeep as specified by the donor.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

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

**TULLY TOWNSHIP
VAN WERT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant, and Equipment

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

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2005	2006
Demand deposits	\$155,151	\$116,320

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Township.

3. BUDGETARY ACTIVITY

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

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$95,029	\$80,609	(\$14,420)
Special Revenue	178,120	189,194	11,074
Capital Projects	52,500	87,969	35,469
Private-Purpose Trust	0	10	10
Total	\$325,649	\$357,782	\$32,133

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$89,189	\$77,872	\$11,317
Special Revenue	252,900	217,258	35,642
Capital Projects	69,000	101,483	(32,483)
Total	\$411,089	\$396,613	\$14,476

**TULLY TOWNSHIP
VAN WERT COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$90,504	\$60,295	(\$30,209)
Special Revenue	169,638	187,262	17,624
Capital Projects	49,100	49,224	124
Private-Purpose Trust	0	10	10
Total	\$309,242	\$296,791	(\$12,451)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$104,050	\$90,958	\$13,092
Special Revenue	237,453	180,225	57,228
Capital Projects	50,000	39,156	10,844
Total	\$391,503	\$310,339	\$81,164

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Issue II Capital Projects fund by \$37,916 for the year ended December 31, 2006. Also contrary to Ohio law, at December 31, 2005, the General fund had a cash deficit balance of \$1,239.

4. PROPERTY TAX

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

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

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
General Obligation Bonds	\$34,854	4.5%

The Township issued general obligation bonds to finance the purchase of a new dump truck for Township road maintenance.

**TULLY TOWNSHIP
VAN WERT COUNTY**

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

5. DEBT (Continued)

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

Year ending December 31:	General Obligation Bonds
2007	\$6,870
2008	6,609
2009	6,388
2010	6,146
2011	5,905
2012-2013	8,405
Total	\$40,323

6. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2005, OPERS members contributed 8.5% of their wages. The Township contributed an amount equaling 13.55% of participants' gross salaries. For 2006, OPERS participants contributed 9% of their wages. The Township contributed an amount equal to 13.70% of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

7. RISK MANAGEMENT

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

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

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

Casualty Coverage

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

**TULLY TOWNSHIP
VAN WERT COUNTY**

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

7. RISK MANAGEMENT (Continued)

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

Property Coverage

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

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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

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

Financial Position

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

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

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$16,200. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

**TULLY TOWNSHIP
VAN WERT COUNTY**

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

7. RISK MANAGEMENT (Continued)

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

<u>Contributions to OTARMA</u>	
2004	\$7,326
2005	7,817
2006	8,100

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they give written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

8. SUBSEQUENT EVENTS

On June 18, 2007, the Township entered into a 5 year loan with First Financial Bank. The amount of the loan was \$71,153 with an interest rate of 5.5%. The loan proceeds were used to purchase a new Tractor, Backhoe, and Dump bucket for the Backhoe.

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Mary Taylor, CPA

Auditor of State

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

Tully Township
Van Wert County
PO Box 254
Convoy, Ohio 45832

To the Township Board of Trustees:

We have audited the financial statements of Tully Township, Van Wert County, (the Township), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated September 14, 2007, wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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**Internal Control over Financial Reporting
(Continued)**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we believe findings number 2006-001 and 2006-002 are also material weaknesses.

We noted certain matters that we reported to the Township's management in a separate letter dated September 14, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-004.

We did note certain noncompliance or other matters that we reported to the Township's management in a separate letter dated September 14, 2007.

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

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



Mary Taylor, CPA
Auditor of State

September 14, 2007

**TULLY TOWNSHIP
VAN WERT COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2006-001

Noncompliance Citation / Material Weakness

Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated. **Ohio Rev. Code Section 5705.40** states any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them. Transfers may be made by resolution or ordinance from one appropriation item to another. Subject to certain limitations, the annual appropriation measure may contain an appropriation for contingencies.

During 2006, the Township received and expended \$37,916 in Issue II money for road projects. The expenditure of these funds was not appropriated by the Board of Trustees.

The Board should make amendments to the appropriation resolution whenever additional funds such as Issue II road project monies are received. The fiscal officer should consult Auditor of state Bulletin 2000-008 for guidance regarding accounting for on-behalf payments such as Issue II funds.

Officials Response:

The Township will appropriate the Issue funds for the next project received.

FINDING NUMBER 2006-002

Noncompliance Citation / Material Weakness

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

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

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

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

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

2. **Blanket certificate** – Fiscal officers may prepare “blanket” certificates not exceeding an amount established by resolution or ordinance adopted by the legislative authority, against any specific line item account over a period not running beyond the current 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 one line item appropriation.

The Township did not properly certify the availability of funds prior to purchase commitment for 17.46% of disbursements in 2005 and 2006, and the aforementioned exceptions were not properly utilized. The failure to properly certify the availability of funds can result in overspending and negative cash fund balances.

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

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

Officials Response:

The Township will implement procedures to improve compliance with the prior certification requirement.

FINDING NUMBER 2006-003

Noncompliance Citation / Significant Deficiency

Ohio Rev. Code Sections 5705.09(F) and 5705.10(D) state in pertinent part that each subdivision shall establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose. The existence of a deficit cash balance in any fund indicates that money from another fund or funds have been used to pay the obligations of the fund or funds carrying the deficit cash balance.

**FINDING NUMBER 2006-003
(Continued)**

During 2005 the Township incorrectly posted \$1,926 of motor vehicle license tax monies into the general fund. The correction of this posting error caused the Township's general fund to have a negative cash balance of \$1,239 as of December 31, 2005.

Procedures should be developed that will prevent revenues from being posted to incorrect funds or accounts and to monitor fund balances for adequacy to cover expenditures.

Officials Response:

The Township Fiscal Officer will review amounts posted periodically for possible errors.

FINDING NUMBER 2006-004

Noncompliance Citation / Significant Deficiency

Ohio Revised Code § 5705.36(A)(4) states allows subdivisions to request reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be less than the amount in the official certificate of estimated resources. A reduced amended certificate must be obtained if the amount of deficiency will reduce available resources below the current level of appropriation.

During 2005 the Township's general funds actual receipts \$30,209 less than the amounts anticipated as certified by the original amended certificate of estimated resources. A reduced amended certificate should have been obtained since the general funds appropriations and expenditures for the year were based on the original certificate which resulted in deficit spending of \$1,239 for the year.

The Fiscal Officer should perform periodic comparisons of the certified estimated resources and the actual receipts in order to determine whether an amended certificate of estimated resources is needed. This comparison should also include a review of the amounts appropriated in each fund and whether adjustment is needed to prevent deficit spending from occurring.

Officials Response:

Fiscal Officer will perform periodic reviews of estimated to actual revenue received.

**TULLY TOWNSHIP
VAN WERT COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Failure to certify the availability of funds prior to incurring obligations.	No	Reissued as 2006-002



Mary Taylor, CPA
Auditor of State

TULLY TOWNSHIP

VAN WERT 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 27, 2007**