



**Auditor of State
Betty Montgomery**

FALLS TOWNSHIP
MUSKINGUM COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Falls Township
Muskingum County
P.O. Box 511
Zanesville, Ohio 43701

To the Board of Township Trustees:

We have audited the accompanying financial statements of Falls Township, Muskingum County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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's financial transactions were processed using 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 that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Falls Township, Muskingum County, as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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This report is intended solely for the information and use of management, the Board of Trustees, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be, and should not be, used by 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

June 11, 2004

**FALLS TOWNSHIP
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$70,005	\$458,439	\$	\$528,444
Intergovernmental	216,748	146,751		363,499
Licenses, Permits, and Fees		6,500		6,500
Fines, Forfeitures, and Penalties	273			273
Earnings on Investments	11,667	6,059		17,726
Other Revenue	5,874	1,670		7,544
Total Cash Receipts	<u>304,567</u>	<u>619,419</u>	<u>0</u>	<u>923,986</u>
Cash Disbursements:				
Current:				
General Government	230,014	2,324		232,338
Public Safety		168,080		168,080
Public Works	13,345	444,810		458,155
Health	1,200	5,926		7,126
Total Cash Disbursements	<u>244,559</u>	<u>621,140</u>	<u>0</u>	<u>865,699</u>
Total Cash Receipts Over/(Under) Cash Disbursements	60,008	(1,721)	0	58,287
Fund Cash Balances, January 1	<u>909,387</u>	<u>614,494</u>	<u>351</u>	<u>1,524,232</u>
Fund Cash Balances, December 31	<u><u>\$969,395</u></u>	<u><u>\$612,773</u></u>	<u><u>\$351</u></u>	<u><u>\$1,582,519</u></u>

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

**FALLS TOWNSHIP
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Local Taxes	\$72,254	\$475,454	\$	\$547,708
Intergovernmental	232,381	135,081		367,462
Licenses, Permits, and Fees		7,802		7,802
Earnings on Investments	20,245	11,388		31,633
Other Revenue	16,319	41,016		57,335
	341,199	670,741	0	1,011,940
Cash Disbursements:				
Current:				
General Government	216,625	15,000		231,625
Public Safety		279,853		279,853
Public Works	42,629	353,871		396,500
Health	600	15,551		16,151
	259,854	664,275	0	924,129
Total Cash Disbursements	259,854	664,275	0	924,129
Total Cash Receipts Over/(Under) Cash Disbursements	81,345	6,466	0	87,811
Fund Cash Balances, January 1	828,042	608,028	351	1,436,421
Fund Cash Balances, December 31	\$909,387	\$614,494	\$351	\$1,524,232

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

**FALLS TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Falls Township, Muskingum County (the Township), is a body corporate and politic 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 provides road and bridge maintenance and cemetery maintenance. The Township contracts with the Falls Township Volunteer Fire Department to provide emergency medical services.

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 prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

C. 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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to 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:

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

Fire District Fund - This fund receives property tax money for fire and emergency services provided to the Township residents.

**FALLS TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Capital Projects Fund

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Township's significant Capital Projects Fund was the Issue II Fund. This fund receives Ohio Public Works Commission monies for the repair of Township roads.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

**FALLS TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

2. EQUITY IN POOLED CASH

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

	2003	2002
Demand deposits	\$1,582,519	\$1,524,232

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$122,276	\$304,567	\$182,291
Special Revenue	758,091	619,419	(138,672)
Capital Projects	0	0	0
Total	\$880,367	\$923,986	\$43,619

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$930,000	\$244,559	\$685,441
Special Revenue	1,101,500	621,140	480,360
Capital Projects	0	0	0
Total	\$2,031,500	\$865,699	\$1,165,801

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$112,253	\$341,199	\$228,946
Special Revenue	706,271	670,741	(35,530)
Capital Projects	0	0	0
Total	\$818,524	\$1,011,940	\$193,416

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$930,000	\$259,854	\$670,146
Special Revenue	1,167,000	664,275	502,725
Capital Projects	0	0	0
Total	\$2,097,000	\$924,129	\$1,172,871

**FALLS TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Accountability and Compliance

Contrary to Ohio law, the certification of availability of unencumbered appropriations for expenditure was not obtained for numerous expenditures made during 2003 or 2002.

Also contrary to Ohio law, budgetary expenditures exceeded appropriations in the Cemetery Fund by \$5,551 for the year ended December 31, 2002.

Although total fund budgetary expenditures did not exceed appropriations in the General, Motor Vehicle License Tax, and Road and Bridge Funds, expenditures exceeded appropriations at the legal level of control for certain accounts within these funds during 2003, contrary to Ohio law. During 2002, expenditures exceeded appropriations at the legal level of control for certain accounts within the General Fund.

Amendments made to the Township's appropriations were neither formally approved by the Board of Trustees, nor certified to the County Auditor, contrary to Ohio law.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, 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. RETIREMENT SYSTEMS

The Township's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2003 and 2002. The Township has paid all contributions required through December 31, 2003.

**FALLS TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

6. RISK MANAGEMENT

Risk Pool Membership

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. 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

OTARMA retains casualty risks up to \$250,000 per claim, including loss 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 \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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.

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:

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$27,792,223	\$23,757,036
Liabilities	<u>(11,791,300)</u>	<u>(9,197,512)</u>
Retained earnings	<u>\$16,000,923</u>	<u>\$14,559,524</u>

FALLS TOWNSHIP
MUSKINGUM COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

6. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

<u>Property Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$6,791,060	\$6,596,996
Liabilities	<u>(750,956)</u>	<u>(1,204,326)</u>
Retained earnings	<u>\$6,040,104</u>	<u>\$5,392,670</u>



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Falls Township
Muskingum County
P.O. Box 511
Zanesville, Ohio 43701

To the Board of Township Trustees:

We have audited the financial statements of Falls Township, Muskingum County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated June 11, 2004, wherein we noted that the Township's financial transactions were processed using 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 conduct the audit of 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2003-002 through 2003-005. We also noted an immaterial instance of noncompliance that we have reported to management of the Township in a separate letter dated June 11, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as items 2003-001 through 2003-003. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated June 11, 2004.

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A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of 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 to be material weaknesses. However, we do not believe any of the reportable conditions described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in their report that we have reported to the Township's management in a separate letter dated June 11, 2004.

This report is intended solely for the information and use of management and the Board of Trustees, and is not intended to be, and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

June 11, 2004

**FALLS TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

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

FINDING NUMBER 2003-001

Reportable Condition

Estimated Receipts

The Township did not properly post budgeted receipts, and any amendments made to them, to the accounting system. Variances existed between the amounts reflected on the certificates of estimated resources and the amounts posted to the accounting system throughout the year. The following table details these variances:

<u>Fund</u>	<u>Amount Per Last Amended Certificate</u>	<u>Amounts Posted to the Accounting System</u>	<u>Variance</u>
2003			
General Fund	\$122,276	\$120,000	(\$2,276)
Motor Vehicle License Tax Fund	\$10,768	\$10,700	(\$68)
Gasoline Tax Fund	\$57,819	\$57,800	(\$19)
Road and Bridge Fund	\$510,103	\$342,095	(\$168,008)
Cemetery Fund	\$8,593	\$8,600	\$7
Zoning Fund	\$3,713	\$3,700	(\$13)
2002			
General Fund	\$112,253	\$113,130	\$877

Because the information entered into the accounting system was inaccurate, Township management was unable to effectively monitor budgetary activity throughout the year.

We recommend the Township Clerk record only estimated receipts from the Certificate of Estimated Resources and any amendments thereto. The accompanying budgetary presentation includes only budgeted receipts certified to the County Auditor.

FINDING NUMBER 2003-002

Noncompliance Citation and Reportable Condition

Ohio Rev. Code Section 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the money was received.

During 2002 and 2003, the Township's Homestead and Rollback receipts were posted entirely to the Township's General Fund instead of being properly allocated between the General, Road and Bridge, and Fire Funds. In addition, during 2003, a portion of Local Government monies were improperly posted to the Motor Vehicle License Tax Fund instead of to the General Fund.

As a result, adjustments were necessary to record the proper allocation of Homestead and Rollback and Local Government monies as follows:

**FALLS TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

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

FINDING NUMBER 2003-002 (Continued)

Noncompliance Citation and Reportable Condition - Ohio Rev. Code Section 5705.10 (Continued)

	<u>Fund</u>	<u>Decrease</u>	<u>Increase</u>
2003	General Fund	\$25,642	
	Motor Vehicle License Tax Fund	\$1,761	
	Road and Bridge Fund		\$18,260
	Fire District Fund		\$9,143
2002	General Fund	\$53,484	
	Road and Bridge Fund		\$35,640
	Fire District Fund		\$17,844

As of the date of this report, Township management was in agreement with the aforementioned adjustments and these adjustments have been posted to the Township's records.

In addition to certain revenues being credited to improper funds, our testing also indicated receipts were posted to improper classifications on the Township's records. As a result, reclassifications were made in order to fairly present cash transactions in the annual financial report.

We recommend the Clerk follow the chart of accounts as prescribed in the Township Handbook when posting transactions to the accounting system. Proper posting to funds and accounts will help ensure the accuracy of the annual financial report of the Township.

FINDING NUMBER 2003-003

Noncompliance Citation and Reportable Condition

Ohio Rev. Code Section 5705.40 states, in part, that a subdivision may amend or supplement their appropriation measure provided the entity complies with the same provisions of the law as are used in making the original appropriation.

The Township Clerk posted multiple appropriation amendments throughout the audit period. However, these amendments were not approved by the Board of Trustees in the minutes, nor were they certified to the County Auditor. The following table compares approved appropriations to those posted to the accounting system:

**FALLS TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

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

FINDING NUMBER 2003-003 (Continued)

Noncompliance Citation and Reportable Condition - Ohio Rev. Code Section 5705.40 (Continued)

Fiscal Year	Fund	Appropriations Posted to the Accounting System	Approved Appropriations	Approved Appropriations over/(under) Appropriations Posted
2002	1000-110-312	\$5,000	\$6,000	\$1,000
2002	1000-110-314	\$6,000	\$5,000	(\$1,000)
2002	1000-110-341	\$10,000	\$0	(\$10,000)
2002	1000-110-342	\$750	\$0	(\$750)
2002	1000-110-410	\$4,500	\$0	(\$4,500)
2002	1000-110-599	\$526,705	\$617,955	\$91,250
2002	1000-120-323	\$75,000	\$25,000	(\$50,000)
2002	1000-310-360	\$50,000	\$24,000	(\$26,000)
2002	2031-330-420	\$55,000	\$50,000	(\$5,000)
2002	2031-330-599	\$95,000	\$100,000	\$5,000
2002	2041-410-160	\$17,500	\$7,500	(\$10,000)
2002	2111-220-360	\$50,000	\$0	(\$50,000)
2003	1000-110-312	\$5,000	\$6,000	\$1,000
2003	1000-110-314	\$1,500	\$5,000	\$3,500
2003	1000-110-315	\$5,000	\$500	(\$4,500)
2003	1000-110-341	\$5,000	\$0	(\$5,000)
2003	1000-110-342	\$1,000	\$0	(\$1,000)
2003	1000-110-410	\$5,000	\$0	(\$5,000)
2003	1000-110-599	\$536,699	\$638,199	\$101,500
2003	1000-120-323	\$100,000	\$22,500	(\$77,500)
2003	1000-310-360	\$20,000	\$24,000	\$4,000
2003	1000-410-190	\$15,000	\$3,000	(\$12,000)
2003	1000-610-190	\$15,000	\$10,000	(\$5,000)
2003	2011-330-420	\$18,500	\$22,000	\$3,500
2003	2011-330-599	\$18,500	\$15,000	(\$3,500)
2003	2031-330-360	\$475,000	\$400,000	(\$75,000)
2003	2031-330-420	\$63,750	\$50,000	(\$13,750)
2003	2031-330-599	\$11,250	\$100,000	\$88,750
2003	2111-220-599	\$2,550	\$0	(\$2,550)

We recommend Township management review budgetary procedures for amending appropriations, document the Board of Trustees approval of all appropriations amendments in the Board minutes, and file all appropriation amendments with the County Auditor in order to receive confirmation from the County Auditor that appropriations do not exceed estimated resources. The Township Clerk should post these amendments only after the required approvals have been obtained. The accompanying budgetary presentation includes only appropriations approved by the Board of Trustees.

**FALLS TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)**

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

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated. During the year ended December 31, 2002, the following Township fund had expenditures which exceeded appropriations:

<u>Fund</u>	<u>Authority</u>	<u>Disbursements</u>	<u>Variance</u>
Cemetery Fund	\$10,000	\$15,551	(\$5,551)

In addition, although total fund budgetary expenditures did not exceed appropriations in the General, Motor Vehicle License Tax, and Road and Bridge Funds during 2003 and in the General Fund during 2002, expenditures exceeded appropriations at the legal level of control for certain accounts within these funds, contrary to Ohio law. The practice of allowing expenditures to exceed appropriations could result in deficit spending within these funds.

The Township Clerk should deny payment requests exceeding appropriations, as required by Ohio Rev. Code Section 5705.41(B). We recommend the Township Clerk and Board of Trustees compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then the Board of Trustees should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations.

FINDING NUMBER 2003-005

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) 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 (Clerk) 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 taxing authority (Board of Township Trustees) can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

FALLS TOWNSHIP
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002
(Continued)

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

FINDING NUMBER 2003-005 (Continued)

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

1. "Then and Now" certificate (Continued)

Amounts of less than \$1,000 (which was increased to \$3,000 on April 7, 2003) 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 \$5,000 against any specific line item account over a period not exceeding three months or 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. Effective September 26, 2003, blanket certificates may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend beyond the end of the fiscal year. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

3. **Super Blanket Certificate** – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

The Township did not properly certify the availability of funds prior to purchase commitment for 19% of the expenditures tested and there was no evidence that the Township followed the aforementioned exceptions. Without these certifications, the management of the Township lost budgetary control over expenditures and, as more fully explained in Note 3 to the financial statements, this condition allowed noncompliance with Ohio Revised Code Section 5705.41(B) to occur.

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

We recommend the Township certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include certification language Section 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 Section 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**FALLS TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-41060-001	Ohio Rev. Code Section 5705.10, revenues not posted to proper funds	No	Not Corrected – Like finding will be proposed in the current audit as Finding Number 2003-002
2001-41060-002	Improper posting of estimated receipts to the accounting system	No	Not Corrected – Finding will be proposed in the current audit as Finding Number 2003-001



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**FALLS TOWNSHIP
MUSKINGUM 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 18, 2004**