



**Auditor of State  
Betty Montgomery**



MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY

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**Auditor of State  
Betty Montgomery**

Muskingum Township  
Muskingum County  
P.O. Box 2940  
Zanesville, Ohio 43701

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.

A handwritten signature in cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

October 11, 2006

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Muskingum Township  
Muskingum County  
P.O. Box 2940  
Zanesville, Ohio 43701

To the Board of Trustees:

We have audited the accompanying financial statements of Muskingum Township, Muskingum 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 2005 and 2004. 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 of Muskingum Township, Muskingum 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 years 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 October 11, 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

October 11, 2006



**MUSKINGUM 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, 2005**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
<b>Cash Receipts:</b>				
Local Taxes	\$65,252	\$200,902	\$0	\$266,154
Intergovernmental	41,865	171,190		213,055
Special Assessments			4,221	4,221
Earnings on Investments	2,997	757		3,754
Other Revenue	1,048	10,008		11,056
	<u>111,162</u>	<u>382,857</u>	<u>4,221</u>	<u>498,240</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	87,929	37,809		125,738
Public Safety		87,311		87,311
Public Works		208,968		208,968
Debt Service:				
Redemption of Principal		34,048	3,071	37,119
Interest and Fiscal Charges	125	8,072	1,150	9,347
	<u>88,054</u>	<u>376,208</u>	<u>4,221</u>	<u>468,483</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>23,108</u>	<u>6,649</u>	<u>0</u>	<u>29,757</u>
Fund Cash Balances, January 1	<u>356</u>	<u>92,701</u>	<u>0</u>	<u>93,057</u>
<b>Fund Cash Balances, December 31</b>	<b><u><u>\$23,464</u></u></b>	<b><u><u>\$99,350</u></u></b>	<b><u><u>\$0</u></u></b>	<b><u><u>\$122,814</u></u></b>

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

**MUSKINGUM 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, 2004**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
<b>Cash Receipts:</b>				
Local Taxes	\$62,168	\$190,502	\$0	\$252,670
Intergovernmental	34,075	125,514		159,589
Earnings on Investments	537	157		694
Other Revenue	1,447	5,338		6,785
	98,227	321,511	0	419,738
<b>Cash Disbursements:</b>				
Current:				
General Government	108,690	3,440		112,130
Public Safety		29,793		29,793
Public Works		277,742		277,742
Debt Service:				
Redemption of Principal		35,602		35,602
Interest and Fiscal Charges		6,512		6,512
Capital Outlay			25,083	25,083
	108,690	353,089	25,083	486,862
Total Cash Disbursements	108,690	353,089	25,083	486,862
Total Cash Receipts Over/(Under) Cash Disbursements	(10,463)	(31,578)	(25,083)	(67,124)
<b>Other Financing Receipts and (Disbursements):</b>				
Proceeds from Sale of Public Debt:				
Sale of Bonds			25,083	25,083
	0	0	25,083	25,083
Total Other Financing Receipts/(Disbursements)	0	0	25,083	25,083
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(10,463)	(31,578)	0	(42,041)
Fund Cash Balances, January 1	10,819	124,279	0	135,098
<b>Fund Cash Balances, December 31</b>	<b>\$356</b>	<b>\$92,701</b>	<b>\$0</b>	<b>\$93,057</b>

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

**MUSKINGUM TOWNSHIP  
MUSKINGUM 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 Muskingum Township, Muskingum 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 and cemetery maintenance. The Township contracts with the Muskingum Township Volunteer Fire Department to provide fire services and Community Ambulance Services 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 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. 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:

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 for constructing, maintaining, and repairing Township roads.

Fire Levy Fund - This fund receives property tax money for fire protection and emergency management services.

**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Fund Accounting (Continued)**

**3. Debt Service Fund**

Debt Service Funds are used to accumulate resources to repay Township indebtedness. The Township had the following significant Debt Service Fund:

Special Assessment Fund - This fund receives monies from special assessments for the repayment of special assessment debt.

**4. Capital Project Fund**

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

Special Assessment Hickory Hills Project Fund - The Township received monies through the issuance of bonds for the paving of Hickory Hills.

**D. 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 carried over, and need not be reappropriated. The Township did not encumber all commitments required by Ohio law.

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

**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. 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.

**F. 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**

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

	2005	2004
Demand deposits	\$122,814	\$93,057

**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 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$107,202	\$111,162	\$3,960
Special Revenue	381,739	382,857	1,118
Debt Service	4,221	4,221	0
Total	\$493,162	\$498,240	\$5,078

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$95,599	\$88,054	\$7,545
Special Revenue	331,444	376,208	(44,764)
Debt Service	0	4,221	(4,221)
Total	\$427,043	\$468,483	(\$41,440)

**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

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

**3. BUDGETARY ACTIVITY (Continued)**

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$94,883	\$98,227	\$3,344
Special Revenue	320,997	321,511	514
Capital Projects	0	25,083	25,083
Total	\$415,880	\$444,821	\$28,941

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$94,883	\$108,690	(\$13,807)
Special Revenue	320,997	353,089	(32,092)
Capital Projects	0	25,083	(25,083)
Total	\$415,880	\$486,862	(\$70,982)

Contrary to Ohio law, the Township did not obtain the fiscal officer's certification prior to incurring Township obligations. Also contrary to Ohio law, not all appropriations posted to the accounting system were adopted by the Board of Trustees, resulting in budgetary expenditures exceeding authorized appropriations for fiscal year 2005 in the following funds and amounts: Gasoline Tax Fund (\$12,878), Permissive MVL Fund (\$8,028), FEMA Fund (\$29,923), Special Assessment Fund (\$4,221), and Applo Way Main Fund (\$11,000). In addition, budgetary expenditures exceeded appropriation authority for fiscal year 2004 in the following funds and amounts: General Fund (\$13,087), Motor Vehicle License Tax Fund (\$39,827), Gasoline Tax Fund (\$21,676), Road and Bridge Fund (\$30,286), and Special Assessment Hickory Hills Project Fund (\$25,083). Contrary to Ohio law, amounts paid from the General Fund for Trustee salaries and fringe benefits did not coincide to those amounts authorized by the Board's resolution.

**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.

**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

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

**5. DEBT**

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
2000 - Equipment Lease Purchase Agreement	\$75,408	5.60%
2004 - Equipment Lease Purchase Agreement	42,555	4.81%
2004 - Township Road Improvement Bond	22,158	5.13%
2005 - Township Road Improvement Bond	25,083	5.16%
Total	\$165,204	

The 2000 equipment lease purchase agreement was entered into to obtain a fire truck to be used for Township fire protection. The lease is collateralized by the fire truck. The lease is being paid from the Fire Levy Fund in annual installments of \$17,707, which includes principal and interest.

The 2004 equipment lease purchase agreement was entered into to obtain a dump truck. The lease is collateralized by the dump truck. The lease is being paid from the Motor Vehicle License Tax and Road and Bridge Funds in annual installments of \$15,571, which includes principal and interest.

The 2004 township road improvement bond was issued to refinance a previous note entered into as a special assessment used for the Oakwood North Paving Project. The bond was issued in October of 2004 in the amount of \$25,230 and is collateralized by the full faith and credit of the Township. The bond is being repaid in semiannual installments of \$2,173 over seven years.

The 2005 township road improvement bond was issued to refinance a previous note entered into as a special assessment used for the Hickory Hills Paving Project. The note was issued in October of 2004 in the amount of \$25,083 and was repaid by the bond issued in October of 2005. The bond is collateralized by the full faith and credit of the Township. The bond is being repaid in semiannual installments of \$2,243 over seven years.

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

	2000 Equipment Lease Purchase	2004 Equipment Lease Purchase	2004 Township Road Improvement Bond	2005 Township Road Improvement Bond
Year ending December 31:				
2006	\$17,707	\$15,571	\$4,346	\$4,485
2007	17,707	15,571	4,346	4,485
2008	17,707	15,571	4,346	4,485
2009	17,707		4,346	4,485
2010	17,707		4,346	4,485
2011 – 2015			4,346	8,970
Total	\$88,535	\$46,713	\$26,076	\$31,395

**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

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

**6. RETIREMENT SYSTEMS**

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

The Ohio Revised Code also prescribes contribution rates. For 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.

**7. RISK MANAGEMENT**

The Township provides health, dental and life insurance coverage to its officials and full time employees through a private carrier.

**Risk Pool Membership**

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.



**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

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

**7. RISK MANAGEMENT (Continued)**

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

The aggregate stop-loss limit for 2005 was \$1,682,589.

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

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

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

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>

**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

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

**7. RISK MANAGEMENT (Continued)**

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 \$20,520.

**8. CONTINGENT LIABILITIES**

Amounts grantor agencies pay to the township are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.



**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***

Muskingum Township  
Muskingum County  
P.O. Box 2940  
Zanesville, Ohio 43701

To the Board of Trustees:

We have audited the financial statements of Muskingum Township, Muskingum County, Ohio (the Township), as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated October 11, 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 certain matters involving the internal control over financial reporting and its operation that we consider 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-001, 2005-004, and 2005-005.

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. We consider reportable conditions 2005-001, 2005-004, and 2005-005 listed above to be material weaknesses. In a separate letter to the Township's management dated October 11, 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 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 2005-001 through 2005-004. In a separate letter to the Township's management dated October 11, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



**Betty Montgomery**  
Auditor of State

October 11, 2006

**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-001**

**Noncompliance Citation and Material Weakness**

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing authority 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. The main exceptions are: “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **“Then and Now” Certificates** – 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 Board can authorize the drawing of a warrant for the payment of the amount due. The Board 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 Board.

2. **Blanket Certificate** – Fiscal officers may prepare “blanket” certificates not exceeding \$5,000 against any specific line item account not extending beyond the end of the 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. Effective September 26, 2003, certificates may not exceed an amount established by resolution or ordinance of the Board, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the Board 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 26% and 19% of the expenditures tested for 2004 and 2005, respectively, 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 finding 2005-002, this condition allowed noncompliance with Ohio Revised Code § 5705.41(B) to occur.

**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

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

**FINDING NUMBER 2005-001 (Continued)**

**Noncompliance Citation and Material Weakness - Ohio Rev. Code § 5705.41(D)(1) (Continued)**

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 Fiscal Officer 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 § 5705.41(D) applies. The most convenient certification method is to use purchase orders that include 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**

Purchase orders will be issued prior to an obligation being incurred by the Township.

**FINDING NUMBER 2005-002**

**Noncompliance Citation**

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

During fiscal year 2005, the following funds had expenditures which exceeded appropriations:

<u>Fund</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Gasoline Tax Fund	\$56,949	\$69,827	(\$12,878)
Permissive MVL Fund	\$9,662	\$17,690	(\$8,028)
FEMA Fund	\$0	\$29,923	(\$29,923)
Special Assessment Fund	\$0	\$4,221	(\$4,221)
Applo Way Main Fund	\$0	\$11,000	(\$11,000)

**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-002 (Continued)**

**Noncompliance Citation - Ohio Rev. Code § 5705.41(B) (Continued)**

During fiscal year 2004, the following funds had expenditures which exceeded appropriations:

<u>Fund</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General Fund	\$94,883	\$108,690	(\$13,807)
Motor Vehicle License Tax Fund	\$26,538	\$66,365	(\$39,827)
Gasoline Tax Fund	\$55,290	\$76,966	(\$21,676)
Road and Bridge Fund	\$127,752	\$158,038	(\$30,286)
Special Assessment Hickory Hills Project Fund	\$0	\$25,083	(\$25,083)

The Township's failure to limit expenditures to the amounts appropriated could result in deficit spending.

We recommend the Board of Trustees and the Township Fiscal Officer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then the Board should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations. Once the Board of Trustees has adopted additional appropriations, the County Budget Commission (County Auditor) should certify that appropriations do not exceed estimated resources. The Township Fiscal Officer should not make any expenditure unless appropriations are available.

**Officials' Response**

Monthly reports will be given to Trustees in regards to expenditures versus appropriations.

**FINDING NUMBER 2005-003**

**Noncompliance Citation**

Ohio Rev. Code § 505.24(C) sets forth the method by which township trustees' compensation should be allocated. This section is amplified by Ohio Attorney General (OAG) Opinion 2004-036.

In summary, Ohio Rev. Code Section 505.24(C) requires the following:

- (1) **Trustees receiving per diem compensation:** The trustees must resolve a method by which each trustee shall periodically notify the township clerk of the number of days spent on township services *and the kinds of services rendered* on those days. The per diem compensation shall be paid from the township general fund or from other township funds in proportion to the kinds of services rendered, as documented. (For example, the township could charge trustee time spent on road repairs to the road & bridge fund.)

**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-003 (Continued)**

**Noncompliance Citation - Ohio Rev. Code § 505.24(C) (Continued)**

- (2) **Trustees receiving compensation by annual salary:** By resolution, Rev. Code Section 505.24(C) permits trustees to receive annual salaries instead of per diem payments. When paid by salary, Rev. Code Section 505.24(C) does not prescribe a “documentation of time spent” requirement.

However, for salaries **not** paid from the general fund, effective October 19, 2004, OAG Opinion 2004-036 requires trustees to establish administrative procedures to document the proportionate amount chargeable to other township funds based on the kinds of services rendered. The “administrative procedures” can be timesheets or a similar method of record keeping, as long as the trustees document all time spent on township business and the type of service performed, in a manner similar to trustees paid per diem compensation. If trustees do not document their time, then no part of salaries may be paid from these other funds.

Per the above, trustees must keep records of the time spent on various tasks and the fund to which the township will charge their costs. (The sole exception to this is for trustees charging all salaries to the general fund, as described above.) There is no one method for documenting time and the kinds of services rendered. A diary, time sheets or other methods will suffice if they include the information described above.

Prior to the issuance of the aforementioned, OAG Opinion, regarding (2) above, the Auditor of State (AOS) accepted resolutions that specified percentages of salaries to allocate to various funds, as complying with Rev. Code Section 505.24(C). This OAG Opinion alters that conclusion. Resolutions to pay trustees by salary should now specify that a township will allocate salaries based on **documentation** the trustees submit, not based on percentages a **resolution specifies**.

On March 25, 2003, the Township passed a resolution authorizing 33% of the Trustees’ salaries and benefits to be paid from the General Fund with 67% to be paid from the Road and Bridge Fund. However, during fiscal year 2004, the Trustees’ combined annual salaries and fringe benefits were paid in the following proportions: 80% General and 20% Road and Bridge Fund. On January 1, 2005, the Township passed a resolution authorizing 17% of the Trustees’ salaries and benefits to be paid from the General Fund with 83% to be paid from the Road and Bridge Fund. However, during fiscal year 2005, the Trustees’ combined annual salaries and fringe benefits were paid in the following proportions: 48% General and 52% Road and Bridge Fund. In addition the Township had not established procedures documenting services rendered and the funds to which to charge these costs.

After bringing this to the Township management’s attention, the Board of Trustees passed a retroactive resolution on October 11, 2006 addressing the proportions from which the total compensation (salaries and fringe benefits) of Trustees should have been paid. The proportions approved were consistent with those percentages indicated above.

Failure to maintain documentation of time spent by the Trustee’s on each duty and the funds to which the time is to be charged could result in significant adjustments being made to the Township’s fund balances.



**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-003 (Continued)**

**Noncompliance Citation - Ohio Rev. Code § 505.24(C) (Continued)**

We recommend the Township adopt formal administrative procedures regarding documenting the time spent by Trustees on various duties and the funds to which each task should be charged. The Township should adopt a resolution specifying that the Township will allocate salaries based upon documentation submitted by each trustee or all salaries will be paid from the General Fund. In addition, the Township should document the duties the Trustees have already performed during the current year (2006) and make adjustments to the amounts charged to each fund in accordance with this documentation.

**Officials' Response**

We did not receive a response from Township Officials concerning this finding.

**FINDING NUMBER 2005-004**

**Noncompliance Citation and Material Weakness**

Ohio Rev. Code § 5705.40 provides that any appropriation ordinance or measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making an original appropriation.

The appropriations as approved by the Board did not agree to the appropriations entered into the accounting system. The following schedules compare approved appropriations to those posted to the appropriations.

**December 31, 2005**

<b>Fund</b>	<b>Appropriations Posted to the UAN system</b>	<b>Approved Appropriations</b>	<b>Variance</b>
General Fund	\$110,458	\$95,599	(\$14,859)
Motor Vehicle License Tax Fund	\$21,899	\$17,672	(\$4,227)
Gasoline Tax Fund	\$71,704	\$56,949	(\$14,755)
Road and Bridge Fund	\$135,073	\$131,943	(\$3,130)
Permissive MVL Fund	\$18,302	\$9,662	(\$8,640)
FEMA Fund	\$29,923	\$0	(\$29,923)
Applo Way Main Fund	\$11,000	\$0	(\$11,000)
Special Assessment Fund	\$4,468	\$0	(\$4,468)

**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-004 (Continued)**

**Noncompliance Citation and Material Weakness - Ohio Rev. Code § 5705.40 (Continued)**

**December 31, 2004**

<b>Fund</b>	<b>Appropriations Posted to the UAN system</b>	<b>Approved Appropriations</b>	<b>Variance</b>
General Fund	\$112,210	\$94,882	(\$17,328)
Motor Vehicle License Tax Fund	\$66,365	\$26,538	(\$39,827)
Gasoline Tax Fund	\$86,544	\$55,290	(\$31,254)
Road and Bridge Fund	\$160,360	\$127,752	(\$32,608)
Fire Levy Fund	\$129,599	\$111,417	(\$18,182)
Hickory Hill Fund	\$25,083	\$0	(\$25,083)

Appropriations reported in Note 3 have been adjusted to reflect only those appropriations adopted by the Board, as noted in the Board's minutes.

We recommend the Board approve all appropriation amendments and note the approval in the Board's minutes. We also recommend the Fiscal Officer file all appropriation amendments with the County Auditor in order to receive certification from the County Auditor that appropriations do not exceed estimated resources and post appropriation amendments to the accounting system only after both the Board and the County Auditor have approved and certified the amendments.

**Officials' Response**

We did not receive a response from Township Officials concerning this finding.

**FINDING NUMBER 2005-005**

**Material Weakness**

Budgeted receipts should be posted to the accounting system so that management may effectively monitor the status of amounts anticipated to be received throughout the year. The amounts posted as budgeted receipts should represent the amounts estimated to be received during the year on the Township's Official Certificate of Estimated Resources.

During 2005 and 2004, the Township Fiscal Officer did not accurately post budgeted receipts to the accounting system. Variances existed between the amounts on the certificates of estimated resources and the amounts posted to the accounting system for the year ending December 31, 2005 as follows:

**MUSKINGUM TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-005 (Continued)**

**Material Weakness (Continued)**

<u>Fund</u>	<u>Budgeted Receipts per the UAN System</u>	<u>Budgeted Receipts per the Final Certificate of Estimated Resources</u>	<u>Variance</u>
General Fund	\$112,531	\$107,202	(\$5,329)
Motor Vehicle License Tax Fund	\$17,672	\$18,463	\$791
Gasoline Tax Fund	\$68,985	\$67,767	(\$1,218)
Road and Bridge Fund	\$136,013	\$143,835	\$7,822
Fire Levy Fund	\$115,218	\$93,449	(\$21,769)
Applo Way Main Fund	\$0	\$10,000	\$10,000
Special Assessment Fund	\$0	\$4,221	\$4,221

In addition, variances existed between the amounts on the certificates of estimated resources and the amounts posted to the accounting system for the year ending December 31, 2004 as follows:

<u>Fund</u>	<u>Budgeted Receipts per the UAN System</u>	<u>Budgeted Receipts per the Final Certificate of Estimated Resources</u>	<u>Variance</u>
General Fund	\$103,665	\$94,883	(\$8,782)
Motor Vehicle License Tax Fund	\$46,424	\$26,538	(\$19,886)
Gasoline Tax Fund	\$64,876	\$55,290	(\$9,586)
Road and Bridge Fund	\$140,651	\$127,752	(\$12,899)
Fire Levy Fund	\$120,146	\$111,417	(\$8,729)
Hickory Hill Fund	\$25,083	0	(\$25,083)

Because the information entered into the accounting system was inaccurate, the Township management was unable to effectively monitor budget verses actual activity. Adjustments were made to the budgetary activity reported in Note 3 to the financial statements in order to accurately present the certified amount of estimated receipts.

We recommend the Fiscal Officer record estimated receipts directly from the certificate of estimated resources and any amendments thereto. This would ensure useful comparisons of estimated to actual receipts to be made throughout the year and help indicate when an increased or decreased amended certificate should be obtained.

**Officials' Response**

Estimated receipts will be more accurately posted to the system to ensure that amended certificates are obtained when they should be.

**MUSKINGUM TOWNSHIP  
MUSKINGUM 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; <b><i>Explain</i></b>
2003-001	A finding for recovery was repaid under audit for the overcompensation of an employee.	Yes.	Corrected.
2003-002	Ohio Rev. Code § 5705.10, receipts posted to incorrect funds.	Yes.	Corrected.
2003-003	Ohio Rev. Code § 505.24, payment of Trustees' salaries and benefits from funds other than the General Fund.	No.	Repeated for the current audit as finding number 2005-003.
2003-004	Ohio Rev. Code § 5705.10, payments of a portion of the Clerk's insurance and retirement from funds other than the General Fund.	Yes.	Corrected.
2003-005	Ohio Rev. Code § 5705.40, appropriations posted to the UAN system were not properly approved.	No.	Repeated for the current audit as finding number 2005-004.
2003-006	Ohio Rev. Code § 5705.41(B), expenditures in excess of appropriations.	No.	Repeated for the current audit as finding number 2005-002.
2003-007	Ohio Rev. Code § 5705.41(D), Clerk's certification was not appropriately obtained prior to incurring obligations.	No.	Repeated for the current audit as finding number 2005-001.



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**MUSKINGUM 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 9, 2006**