

**MCKEAN TOWNSHIP  
LICKING COUNTY**

**REGULAR AUDIT**

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





Mary Taylor, CPA  
Auditor of State

January 10, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

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**Auditor of State  
Betty Montgomery**

Board of Trustees  
McKean Township  
2367 Lundys Lane  
Newark, Ohio 43055

We have reviewed the *Independent Auditors' Report* of McKean Township, Licking County, prepared by Wilson, Shannon & Snow, Inc., for the audit period January 1, 2005 to December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. McKean Township is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY  
Auditor of State

December 29, 2006

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**MCKEAN TOWNSHIP  
LICKING COUNTY**

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McKean Township  
Licking County  
2367 Lundys Lane  
Newark, Ohio 43055

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 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. We believe our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the McKean Township, Licking County, Ohio as of December 31, 2005, and the respective changes in cash basis financial position and the respective budgetary comparisons of the General, Gas Tax, Road & Bridge, and Fire District Funds thereof for the year then ended in conformity with the accounting basis Note 2 describes.

For the year ended December 31, 2005, the Township revised its financial presentation comparable to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In addition, as discussed in Note 4, the Township adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosure*.

*Wilson, Shannon & Snow, Inc.*

**CERTIFIED PUBLIC ACCOUNTANTS**  
Ten West Locust Street  
Newark, Ohio 43055  
(740) 345-6611  
1-800-523-6611  
FAX (740) 345-5635

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

*Wilson, Shanna & Snow, Inc.*

October 30, 2006

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

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

**Highlights**

Key highlights for 2005 are as follows:

- Net assets of governmental activities decreased \$8,544 or 7 percent, a significant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the General Fund, which realized the greatest burden of increased costs and decreased intergovernmental receipts in 2005; however, cost increases affected most funds.
- The Township's general receipts are primarily property taxes. These receipts represent 38 percent of the total cash received for governmental activities during the year. Property tax receipts for 2005 changed very little compared to 2004.
- Other major issues affecting the Township were the failure of an additional road levy to help support the Road & Bridge fund.

**Using the Basic Financial Statements**

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

**Report Components**

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

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

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

**Basis of Accounting**

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

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

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

**Reporting the Township as a Whole**

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

These statements report the Township's cash position and the changes in cash position. Beginning in 2004, the Township was notified by the Licking County Budget Commission that the Granville Exempted Village School District would be entitled to an additional .4 mills of inside millage amounting to a decrease of approximately \$13,000 per year and each year thereafter. In addition, Township residents have been notified that local government funds will be reduced by approximately \$30,000 a year. These negative revenue implications along with the Township residents defeating an additional road levy 4 times have made upkeep to Township roads to a bare minimum. Fees for cemetery are not supporting the mowing performed on a yearly basis noting the Township's old cemetery may have 1 to 12 burials per year. The Township's tax base is basically coming from CAUV or rolled back taxes for farm ground. This along with less home permits in 2004 and 2005 has hurt the Township's budget significantly.

In the statement of net assets and the statement of activities, we divide the Township into the following type of activities:

- Governmental activities - Most of the Township's basic services are reported here, including fire, streets, and roads and bridges. State and federal grants and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

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

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

Governmental Funds - Most of the Township's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Township's governmental operations and the basic services it provides.

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

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Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Township's programs. The Township's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column.

The Township's major governmental funds are the General, Gas Tax, Road & Bridge, and Fire District Funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

**The Township as a Whole**

Table 1 provides a summary of the Township's net assets for 2005 compared to 2004 on a cash basis:

(Table 1)  
**Net Assets**

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Cash and Cash Equivalents	\$ 119,772	\$ 128,316
Total Assets	\$ 119,772	\$ 128,316
<b>Net Assets</b>		
Restricted for:		
Street Construction and Repair	35,100	29,151
Debt Service	5,172	5,206
Permanent Fund	237	234
Other Purposes	21,866	15,487
Unrestricted	57,397	78,238
Total Net Assets	\$119,772	\$128,316

As mentioned previously, net assets of governmental activities decreased \$8,544 or 7 percent during 2005. The primary reasons contributing to the decreases in cash balances are as follows:

- The Township received less property and other local taxes as well as local government revenues from 2004.
- Increases in salaries ranging from 3% to 4% for employees of the Township.

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

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

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(Table 2)  
**Changes in Net Assets**

	Governmental Activities 2005
	2005
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$5,657
Operating Grants and Contributions	113,456
Total Program Receipts	119,113
General Receipts:	
Property and Other Local Taxes	131,746
Income Taxes	
Grants and Entitlements Not Restricted to Specific Programs	56,422
Interest	1,580
Miscellaneous	3,523
Notes Issued	16,000
Sale of Capital Assets	13,838
Total General Receipts	223,109
Total Receipts	342,222
Disbursements:	
General Government	112,478
Public Safety	57,713
Public Works	144,450
Health	5,525
Capital Outlay	19,757
Debt Service	10,843
Total Disbursements	350,766
Increase (Decrease) in Net Assets	(8,544)
Net Assets, January 1, 2005	128,316
Net Assets, December 31, 2005	\$119,772

Program receipts represent 35 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gasoline taxes.

General receipts represent 65 percent of the Township's total receipts, and of this amount, 59 percent are local taxes. State grants and entitlements make up the balance of the Township's general receipts (25 percent). Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Township and the support services provided for the other Township activities. These include the costs of the fiscal officer and trustees, as well as purchasing costs.

Public Safety are the costs of emergency medical and fire protection; Public Works disbursements are the costs of maintaining the Township roads as well as payroll costs for employees.

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

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**Governmental Activities**

If you look at the Statement of Activities on page 10, you will see that the first column lists the major services provided by the Township. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for General Government and Public Works, which combined account for 73 percent of all governmental disbursements. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Township that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

**Governmental Activities**

	Total Cost of Services 2005	Net Cost of Services 2005
General Government	\$112,478	\$97,606
Public Safety	57,713	57,713
Public Works	144,450	40,909
Health	5,525	4,825
Capital Outlay	19,757	19,757
Debt Service	10,843	10,843
Total Expenses	\$350,766	\$231,653

The dependence upon property and tax receipts is apparent as over 38 percent of governmental activities are supported through these general receipts.

**The Township's Funds**

Total governmental funds had receipts of \$312,384 and disbursements of \$346,095. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$20,841 as the result of increased costs for salaries and benefits and not achieving anticipated growth in property tax and local government receipts.

General Fund receipts were less than disbursements by \$20,841 indicating that the General Fund is in a deficit spending situation. The Township will closely monitor its budget in future years to avoid a possible deficit.

The Gas Tax fund had receipts of \$73,614 and disbursements of \$67,665 noting an increase in fund balance to \$35,100 from \$29,151.

The Road & Bridge fund had receipts and other financing sources of \$89,160 and disbursements of \$85,902 noting an increase in fund balance of \$3,258 to \$9,093 from \$5,835.

The Fire District fund had receipts and disbursements of \$57,713 noting no change in fund balance from the prior year.

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

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**General Fund Budgeting Highlights**

The Township's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2005, the Township amended its General Fund budget several times. Original estimated receipts were not changed; however, final appropriations were decreased \$8,350 from \$130,429 to \$122,079.

Final disbursements were budgeted at \$122,079 while actual disbursements were \$87,125. The Township experienced higher receipts than budgeted and appropriations were budgeted higher than actual disbursements.

**Capital Assets and Debt Administration**

**Capital Assets**

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

**Debt**

At December 31, 2005, the Township's outstanding debt included \$27,729 in general obligation notes issued for the purchase of Township vehicles. For further information regarding the Township's debt, refer to Note 12 to the basic financial statements.

**Current Issues**

The challenge for all Township's is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes which is limited because of the CAUV tax base and no industry income. Our newly prepared financial forecast predicts a deficit in 2007, therefore, the Trustees are committed to the public to operate within Township means. This plan became effective in 2006. The Trustees operate all equipment needed on the week ends for snow, ice and tree removal, thus eliminating overtime by the Road Supervisor. The Trustees are still determining with local State Representatives to reinstate local government funds that were taken from all Township's throughout the State of Ohio.

**Contacting the Township's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to reflect the Township's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Phyllis Ellas, Fiscal Officer, McKean Township, 2367 Lundys Lane, Newark, Ohio 43055 or visit our website at [www.mckeantownship.net](http://www.mckeantownship.net) for monthly news.



**MCKEAN TOWNSHIP  
LICKING COUNTY**

*Statement of Net Assets - Cash Basis  
December 31, 2005*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$119,772</u>
<i>Total Assets</i>	<u><u>\$119,772</u></u>
<b>Net Assets</b>	
Restricted for:	
Street Construction and Repair	\$35,100
Debt Service	5,172
Other Purposes	21,866
Permanent Fund:	
Expendable	100
NonExpendable	137
Unrestricted	<u>57,397</u>
<i>Total Net Assets</i>	<u><u>\$119,772</u></u>

See accompanying notes to the basic financial statements

**MCKEAN TOWNSHIP**

**LICKING COUNTY**

*Statement of Activities - Cash Basis  
For the Year Ended December 31, 2005*

	Program Cash Receipts			Net (Cash Disbursements) Cash Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
General Government	\$112,478	\$4,957	\$9,915	(97,606)
Public Safety	57,713	0	0	(57,713)
Public Works	144,450	0	103,541	(40,909)
Health	5,525	700	0	(4,825)
Capital Outlay	19,757	0	0	(19,757)
Debt Service	10,843	0	0	(10,843)
<b>Total</b>	<b>\$350,766</b>	<b>\$5,657</b>	<b>\$113,456</b>	<b>(231,653)</b>

**General Receipts**

Property Taxes Levied for:

General Purposes	122,144
Debt Service	9,602
Grants and Entitlements not Restricted to Specific Programs	56,422
Notes Issued	16,000
Sale of Capital Assets	13,838
Interest	1,580
Miscellaneous	3,523

*Total General Receipts* 223,109

Change in Net Assets (8,544)

*Net Assets Beginning of Year* 128,316

*Net Assets End of Year* \$119,772

See accompanying notes to the basic financial statements

**MCKEAN TOWNSHIP  
LICKING COUNTY**

*Statement of Cash Basis Assets and Fund Balances  
Governmental Funds  
December 31, 2005*

	<u>General</u>	<u>Gas Tax</u>	<u>Road &amp; Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$57,397	\$35,100	\$9,093	\$18,182	\$119,772
<i>Total Assets</i>	<u>\$57,397</u>	<u>\$35,100</u>	<u>\$9,093</u>	<u>\$18,182</u>	<u>\$119,772</u>
<b>Fund Balances</b>					
Unreserved:					
Reported in:					
General Fund	57,397	0	0	0	57,397
Special Revenue Funds	0	35,100	9,093	12,773	56,966
Debt Service Fund	0	0	0	5,172	5,172
Permanent Fund	0	0	0	237	237
<i>Total Fund Balances</i>	<u>\$57,397</u>	<u>\$35,100</u>	<u>\$9,093</u>	<u>\$18,182</u>	<u>\$119,772</u>

See accompanying notes to the basic financial statements

**MCKEAN TOWNSHIP  
LICKING COUNTY**

*Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2005*

	General	Gas Tax	Road & Bridge	Fire District	Other Governmental Funds	Total Governmental Funds
<b>Cash Receipts</b>						
Property and Other Local Taxes	\$21,700	\$0	\$49,249	\$51,195	\$9,602	\$131,746
Licenses, Permits and Fees	907	0	0	0	4,050	4,957
Intergovernmental	40,812	73,230	8,286	6,518	41,032	169,878
Interest	1,177	336	0	0	67	1,580
Other	1,688	48	1,787	0	700	4,223
<i>Total Cash Receipts</i>	<u>66,284</u>	<u>73,614</u>	<u>59,322</u>	<u>57,713</u>	<u>55,451</u>	<u>312,384</u>
<b>Cash Disbursements</b>						
Current:						
General Government	77,897	0	0	0	29,910	107,807
Public Safety	0	0	0	57,713	0	57,713
Public Works	800	67,665	69,902	0	6,083	144,450
Health	0	0	0	0	5,525	5,525
Capital Outlay	3,757	0	16,000	0	0	19,757
Debt Service:						
Principal Retirement	0	0	0	0	10,046	10,046
Interest and Fiscal Charges	0	0	0	0	797	797
<i>Total Cash Disbursements</i>	<u>82,454</u>	<u>67,665</u>	<u>85,902</u>	<u>57,713</u>	<u>52,361</u>	<u>346,095</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(16,170)</u>	<u>5,949</u>	<u>(26,580)</u>	<u>0</u>	<u>3,090</u>	<u>(33,711)</u>
<b>Other Financing Sources (Uses)</b>						
Sale of Capital Assets	0	0	13,838	0	0	13,838
Notes Issued	0	0	16,000	0	0	16,000
Other Financing Uses	(4,671)	0	0	0	0	(4,671)
<i>Total Other Financing Sources (Uses)</i>	<u>(4,671)</u>	<u>0</u>	<u>29,838</u>	<u>0</u>	<u>0</u>	<u>25,167</u>
<i>Net Change in Fund Balances</i>	<u>(20,841)</u>	<u>5,949</u>	<u>3,258</u>	<u>0</u>	<u>3,090</u>	<u>(8,544)</u>
<i>Fund Balances Beginning of Year</i>	<u>78,238</u>	<u>29,151</u>	<u>5,835</u>	<u>0</u>	<u>15,092</u>	<u>128,316</u>
<i>Fund Balances End of Year</i>	<u>\$57,397</u>	<u>\$35,100</u>	<u>\$9,093</u>	<u>\$0</u>	<u>\$18,182</u>	<u>\$119,772</u>

See accompanying notes to the basic financial statements

**MCKEAN TOWNSHIP**

**LICKING COUNTY**

*Statement of Cash Receipts, Cash Disbursements and Changes*

*In Fund Balance - Budget and Actual -(Budgetary Basis)*

**General Fund**

*For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$23,690	\$23,092	\$21,700	(\$1,392)
Licenses, Permits and Fees	1,600	1,600	907	(693)
Intergovernmental	26,700	27,300	40,812	13,512
Interest	300	298	1,177	879
Other	0	0	1,688	1,688
<i>Total Cash Receipts</i>	<u>52,290</u>	<u>52,290</u>	<u>66,284</u>	<u>13,994</u>
<b>Cash Disbursements</b>				
Current:				
General Government	115,000	112,779	77,897	34,882
Public Works	800	800	800	0
Capital Outlay	14,629	3,800	3,757	43
<i>Total Cash Disbursements</i>	<u>130,429</u>	<u>117,379</u>	<u>82,454</u>	<u>34,925</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(78,139)</u>	<u>(65,089)</u>	<u>(16,170)</u>	<u>48,919</u>
<b>Other Financing Sources (Uses)</b>				
Other Financing Uses	0	(4,700)	(4,671)	29
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>(4,700)</u>	<u>(4,671)</u>	<u>29</u>
<i>Net Change in Fund Balance</i>	<u>(78,139)</u>	<u>(69,789)</u>	<u>(20,841)</u>	<u>48,948</u>
<i>Fund Balance Beginning of Year</i>	<u>78,238</u>	<u>78,238</u>	<u>78,238</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$99</u>	<u>\$8,449</u>	<u>\$57,397</u>	<u>\$48,948</u>

See accompanying notes to the basic financial statements

**MCKEAN TOWNSHIP  
LICKING COUNTY**

*Statement of Cash Receipts, Cash Disbursements and Changes  
In Fund Balance - Budget and Actual -(Budgetary Basis)  
**Gas Tax Fund**  
For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Cash Receipts</b>				
Intergovernmental	\$69,800	\$69,800	\$73,230	\$3,430
Interest	200	200	336	136
Other	0	0	48	48
<i>Total Cash Receipts</i>	<u>70,000</u>	<u>70,000</u>	<u>73,614</u>	<u>3,614</u>
<b>Cash Disbursements</b>				
Current:				
Public Works	95,674	76,124	67,665	8,459
<i>Total Cash Disbursements</i>	<u>95,674</u>	<u>76,124</u>	<u>67,665</u>	<u>8,459</u>
<i>Net Change in Fund Balance</i>	(25,674)	(6,124)	5,949	12,073
<i>Fund Balance Beginning of Year</i>	<u>29,151</u>	<u>29,151</u>	<u>29,151</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$3,477</u></u>	<u><u>\$23,027</u></u>	<u><u>\$35,100</u></u>	<u><u>\$12,073</u></u>

See accompanying notes to the basic financial statements

**MCKEAN TOWNSHIP**  
**LICKING COUNTY**

*Statement of Cash Receipts, Cash Disbursements and Changes  
In Fund Balance - Budget and Actual -(Budgetary Basis)  
**Road & Bridge Fund**  
For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$48,010	\$34,000	\$49,249	\$15,249
Intergovernmental	5,200	5,200	8,286	3,086
Other	600	610	1,787	1,177
<i>Total Cash Receipts</i>	<u>53,810</u>	<u>39,810</u>	<u>59,322</u>	<u>19,512</u>
<b>Disbursements</b>				
Current:				
Public Works	59,645	70,095	69,902	193
Capital Outlay	0	0	16,000	(16,000)
<i>Total Cash Disbursements</i>	<u>59,645</u>	<u>70,095</u>	<u>85,902</u>	<u>(15,807)</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(5,835)</u>	<u>(30,285)</u>	<u>(26,580)</u>	<u>3,705</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0	14,000	13,838	(162)
Notes Issued	0	0	16,000	16,000
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>14,000</u>	<u>29,838</u>	<u>15,838</u>
<i>Net Change in Fund Balance</i>	(5,835)	(16,285)	3,258	19,543
<i>Fund Balance Beginning of Year</i>	<u>5,835</u>	<u>5,835</u>	<u>5,835</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>(\$10,450)</u></u>	<u><u>\$9,093</u></u>	<u><u>\$19,543</u></u>

See accompanying notes to the basic financial statements

**MCKEAN TOWNSHIP**  
**LICKING COUNTY**

*Statement of Cash Receipts, Cash Disbursements and Changes  
In Fund Balance - Budget and Actual -(Budgetary Basis)  
**Fire District Fund**  
For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$49,500	\$49,500	\$51,195	\$1,695
Intergovernmental	6,078	6,078	6,518	440
<i>Total Cash Receipts</i>	<u>55,578</u>	<u>55,578</u>	<u>57,713</u>	<u>2,135</u>
<b>Disbursements</b>				
Current:				
Public Safety	55,578	57,792	57,713	79
<i>Total Cash Disbursements</i>	<u>55,578</u>	<u>57,792</u>	<u>57,713</u>	<u>79</u>
<i>Net Change in Fund Balance</i>	0	(2,214)	0	2,214
<i>Fund Balance Beginning of Year</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>(\$2,214)</u>	<u>\$0</u>	<u>\$2,214</u>

See accompanying notes to the basic financial statements



**MCKEAN TOWNSHIP  
LICKING COUNTY**

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

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**Note 1 – Reporting Entity**

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

The reporting entity is comprised of the primary government, component units and other organizations that were included to ensure that the financial statements are not misleading.

**A. Primary Government**

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Township. The Township provides general government services, maintenance of Township roads and bridges, and cemetery maintenance. The Township contracts with Monroe Township and the Village of Granville for fire protection. Police protection is provided by the Licking County Sheriff's Department.

**B. Component Units**

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs or services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Township is obligated for the debt of the organization. The Township is also financially accountable for any organizations that are fiscally dependent on the Township in that the Township approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Township, are accessible to the Township and are significant in amount to the Township. The Township does not have any component units.

The Township participates in a public entity risk pool. Note 9 to the financial statements provides information for this entity.

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

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

As discussed further in Note 2.B, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Township's accounting policies.

**MCKEAN TOWNSHIP  
LICKING COUNTY**

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

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

**Government-Wide Financial Statements**

The statement of net assets – cash basis and the statement of activities – cash basis display information about the Township as a whole. These statements include the financial activities of the primary government. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

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

**Fund Financial Statements**

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

**A. Fund Accounting**

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

**Governmental Funds**

The Township classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Township's major governmental funds are described below:

*General Fund* - This fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

*Gas Tax Fund* – This fund accounts for intergovernmental receipts for the maintenance and repair of Township roads.

**MCKEAN TOWNSHIP  
LICKING COUNTY**

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

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

*Road & Bridge Fund* – This fund accounts for property tax and intergovernmental receipts for the maintenance and construction of Township roads.

*Fire District Fund* – This fund accounts for property tax and intergovernmental receipts in order to provide fire services to the Township residents.

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

**B. Basis of Accounting**

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

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

**C. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Township may appropriate.

The appropriations ordinance is the Township's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the Township. The legal level of control has been established at the fund, department, and object level for all funds.

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

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

**MCKEAN TOWNSHIP  
LICKING COUNTY**

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

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

**D. Cash**

To improve cash management, cash received by the Township is pooled and invested. Individual fund integrity is maintained through Township records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents”. During 2005, the Township had an interest bearing checking account.

Interest earnings are allocated to Township funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 was \$1,177.

**E. Restricted Assets**

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Township did not have restricted assets at December 31, 2005.

**F. Inventory and Prepaid Items**

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

**G. Capital Assets**

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

**H. Interfund Receivables/Payables**

The Township reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements. The Township did not have outstanding interfund loans at December 31, 2005.

**I. Accumulated Leave**

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

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

The Township recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**MCKEAN TOWNSHIP  
LICKING COUNTY**

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

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

**K. Long-Term Obligations**

The Township's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**L. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for street construction and repair as well as cemetery maintenance.

The Township's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

**M. Fund Balance Reserves**

The Township reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. The Township did not have designations at December 31, 2005. Unreserved fund balance indicates that a portion of fund balance is available for appropriation in future periods. The Township did not report fund balance reserves at December 31, 2005.

**N. Interfund Transactions**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements. The Township did not have interfund transactions at December 31, 2005.

**O. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. The Township did not have extraordinary or special items at December 31, 2005.

**MCKEAN TOWNSHIP  
LICKING COUNTY**

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

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**Note 3 – Change in Basis of Accounting and Restatement of Fund Equity**

Last year the Township reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor’s Office. This year the Township has implemented the modified cash basis of accounting described in Note 2. The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

Beginning in 2005, the Township has presented financial statements prepared in a format consistent with GASB Statement No. 34 on a cash basis as described in Note 2. In conjunction with this presentation change, the Township has reported certain fund reclassifications to properly present the funds consistent with GASB Statement No. 34. These reclassifications had the following affect on the fund balances previously reported by governmental funds:

	Nonmajor Funds
Cash Balances at 12/31/04	\$128,082
Reclassification of Funds	234
Restated Cash Balances at 01/01/05	<u>\$128,316</u>

**Note 4 – Change in Accounting Principle**

In March of 2003 GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3). This statement amends Statement No. 3 and addresses additional cash and investment risks to which governments are exposed. Generally, this statement requires that state and local governments communicate key information about such risks in four principle areas: investment credit risks, including credit quality information issued by rating agencies; interest rate disclosures that included investment maturity information; interest rate sensitivity for investments that are highly sensitive to changes in interest rates; and foreign exchange exposures that would indicate the foreign investment’s denomination. The provisions of this statement are effective for financial statements for the year ending December 31, 2005. The implementation of this GASB had no impact on the financial position of the Township at December 31, 2005.

**Note 5 –Compliance**

The Township had appropriations which exceeded appropriations within the Road & Bridge and Fire District Funds contrary to Ohio Revised Code Section 5705.39. In addition, the Township had expenditures which exceeded appropriations within the Road & Bridge Fund contrary to Ohio Revised Code Section 5705.41(B).

**MCKEAN TOWNSHIP  
LICKING COUNTY**

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

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**Note 6 – Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General, Gas Tax, Road & Bridge, and Fire District Funds are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. Any differences between the budgetary basis and the cash basis is would be outstanding year end encumbrances which are treated as disbursements (budgetary basis) rather than as a reservation of fund balance and outstanding year end advances would be treated as an other financing source or use (budgetary basis) rather than as an interfund receivable or payable. There were no differences between the budgetary basis and cash basis based on no outstanding encumbrances or advances at December 31, 2005.

**Note 7 – Deposits and Investments**

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

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

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

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

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

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

**MCKEAN TOWNSHIP  
LICKING COUNTY**

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

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**Note 7 - Deposits and Investments** (continued)

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

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

**Deposits**

Custodial credit risk is the risk that in the event of bank failure, the Township will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$19,772 of the Township's bank balance of \$100,000 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

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

The Township's interest bearing checking account is not exposed to interest rate risk, credit risk, or concentration of credit risk.

**Note 8- Property Taxes**

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



**MCKEAN TOWNSHIP  
LICKING COUNTY**

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

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**Note 8 – Property Taxes** (continued)

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

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

The full tax rate for all Township operations for the year ended December 31, 2005, was \$4.90 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	
Residential	\$23,674,530
Agriculture	10,723,260
Commercial/Industrial/Mineral	1,211,340
Public Utility Property	
Personal	1,757,210
Tangible Personal Property	523,910
Total Assessed Value	<u>\$37,890,250</u>

**Note 9 – Risk Management**

**Risk Pool Membership**

The Township belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

**MCKEAN TOWNSHIP  
LICKING COUNTY**

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

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**Note 9 – Risk Management** (continued)

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. Settlement amounts did not exceed insurance coverage for the past three fiscal years.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan. The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

	<b>2005</b>	<b>2004</b>
Assets	\$8,219,430	\$6,685,522
Liabilities	<u>(2,748,639)</u>	<u>(2,227,808)</u>
Members' Equity	<u>\$5,470,791</u>	<u>\$4,457,714</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**Note 10 – Defined Benefit Pension Plan**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The employer contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Township has paid all required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003.

**MCKEAN TOWNSHIP  
LICKING COUNTY**

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

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**Note 11 – Postemployment Benefits**

***A. Ohio Public Employees Retirement System***

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll, 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

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

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

**MCKEAN TOWNSHIP  
LICKING COUNTY**

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

**Note 12 – Debt**

The Township’s long-term debt activity for the year ended December 31, 2005, was as follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Notes:						
2003 Dump Truck	3.5%	\$21,775	\$0	(\$10,046)	\$11,729	\$7,935
2005 Dump Truck	4.6	0	16,000	0	16,000	5,086
Total		<u>\$21,775</u>	<u>\$16,000</u>	<u>(\$10,046)</u>	<u>\$27,729</u>	<u>\$13,021</u>

The general obligation notes are supported by the full faith and credit of the Township and are payable from unvoted property tax receipts to the extent that other resources are not available to meet annual principal and interest payments.

The following is a summary of the Township’s future annual debt service requirements:

Year	G.O. Notes	
	Principal	Interest
2006	\$13,021	\$1,315
2007	9,128	789
2008	5,580	257
Totals	<u>\$27,729</u>	<u>\$2,361</u>



**Report on Internal Control over Financial Reporting and on Compliance and Other Matters**  
**Based on an Audit of Financial Statements Performed in Accordance with**  
**Government Auditing Standards**

McKean Township  
Licking County  
2367 Lundys Lane  
Newark, Ohio 43055

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McKean Township, Licking County, Ohio (the Township) as of and for the year ended December 31, 2005, and issued our report thereon dated October 30, 2006. For the year ended December 31, 2005, the Township revised its financial presentation comparable to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. In addition, as disclosed in Note 4, the Township adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. 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.

**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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the Township’s management dated October 30, 2006, we reported other matters involving the internal control over financial reporting we did not deem reportable conditions.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Township’s financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 the objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 and 2005-002.

*Wilson, Shannon & Snow, Inc.*

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McKean Township  
Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards*  
Page 2

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

*Wilson, Shuman & Snow, Inc.*

Newark, Ohio

October 30, 2006

**MCKEAN TOWNSHIP  
LICKING COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005**

<b>FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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Finding Number	2005-001
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Ohio Revised Code Section 5705.39 states in part that the total appropriation from each fund shall not exceed total estimated resources. It was noted that the following fund had appropriations which exceeded estimated resources at December 31, 2005:

<u>Major Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Road & Bridge	\$59,645	\$70,095	\$10,450
Fire District	55,578	57,792	2,214

With appropriations exceeding estimated resources, the Township is appropriating monies that were not certified by the County Budget Commission. This may result in a fund deficit if not corrected throughout the year.

We recommend that the Township comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by comparing adopted appropriations against certified estimated resources on a continual basis, including when the original budget is adopted. If it is determined that estimated resources will be greater than initially anticipated, the Township should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources.

*Official's response:* The Fiscal Officer will determine that appropriations are within estimated resources throughout the year.

Finding Number	2005-002
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Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend monies unless it has been properly appropriated. It was noted that the Road & Bridge Fund had expenditures exceeding appropriations at December 31, 2005:

<u>Major Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
Road & Bridge	\$16,000	\$ 0	\$16,000

We recommend that the Township appropriate all expenditures to ensure that expenditures do not exceed appropriations throughout the year. This will help avoid possible fund deficits.

*Official's response:* This noncompliance was attributed to the Township not appropriating the purchase of a dump truck in 2005, which was paid directly by the financial institution. The Township will appropriate these items in the future.

**MCKEAN TOWNSHIP  
LICKING COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><u>Explain:</u></b>
2004-001	Ohio Rev. Code Section 5705.39 states that the total appropriations from each fund should not exceed the total estimated resources available.	No	Re-issued as Finding Number 2005-001.





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**MCKEAN TOWNSHIP**

**LICKING 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  
JANUARY 16, 2007**