



Mary Taylor, CPA
Auditor of State

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

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Mary Taylor, CPA

Auditor of State

Brush Creek Township
Muskingum County
3175 Morningstar Road
Blue Rock, Ohio 43720

To the Board of Trustees:

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

November 20, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Brush Creek Township
Muskingum County
3175 Morningstar Road
Blue Rock, Ohio 43720

To the Board of Trustees:

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

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

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

In 2005, the Township improperly posted 8% of the Trustees' salary and benefits to the Gasoline Tax Fund, Special Revenue Fund type, in the amount of \$1,701 and this salary disbursement amount was due to be paid from the General Fund. Also in 2005, the Township improperly posted rollback and homestead monies in the amount of \$2,968 to the General Fund instead of to the Road and Bridge Fund, Special Revenue Fund type. Had these posting errors been properly posted to the Township's accounting system, the 2005 General Fund revenues would have been decreased by \$2,968, the General Fund expenditures would have been increased by \$1,701 and the December 31, 2005 cash balance of the General Fund would have been decreased by a cumulative \$4,669 and the 2005 Special Revenue Fund type revenues would have been increased by \$2,968, the Special Revenue Fund expenditures would have been decreased by \$1,701 and the December 31, 2005 cash balance of the Special Revenue Fund type would have been increased by \$4,669.

The accompanying financial statements have been prepared assuming that the Township will continue as a going concern. If the Township made the aforementioned adjustments, the result would be a negative cash fund balance in the General Fund at December 31, 2006. This could lead to the Township being considered for Fiscal Caution. As discussed in Note 8, management's plans regarding the aforementioned adjustments are disclosed.

Also, in our opinion, because of the effect of the matters discussed in the preceding two paragraphs, the financial statements referred to above do not present fairly, in all material respects, the combined fund cash balances of Brush Creek Township, Muskingum County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2007, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

November 20, 2007

**BRUSH CREEK 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, 2006**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$13,582	\$27,878	\$41,460
Intergovernmental	24,287	117,345	141,632
Earnings on Investments	269	133	402
Other Revenue		2,021	2,021
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	38,138	147,377	185,515
Cash Disbursements:			
Current:			
General Government	17,044	5,577	22,621
Public Safety	19,891		19,891
Public Works	1,374	115,623	116,997
Health	1,369		1,369
Debt Service:			
Redemption of Principal		4,775	4,775
Interest and Fiscal Charges		919	919
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	39,678	126,894	166,572
Total Cash Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>
	(1,540)	20,483	18,943
Other Financing Receipts and (Disbursements):			
Transfers-In	3,600		3,600
Advances-In	6,000	6,000	12,000
Transfers-Out		(3,600)	(3,600)
Advances-Out	(6,000)	(6,000)	(12,000)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	3,600	(3,600)	0
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>
	2,060	16,883	18,943
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	633	37,197	37,830
Fund Cash Balances, December 31	<hr/>	<hr/>	<hr/>
	\$2,693	\$54,080	\$56,773

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

**BRUSH CREEK 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>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$12,443	\$25,264	\$37,707
Intergovernmental	25,074	211,668	236,742
Earnings on Investments	277	85	362
Other Revenue	19	1,143	1,162
	<u>37,813</u>	<u>238,160</u>	<u>275,973</u>
Cash Disbursements:			
Current:			
General Government	18,554	6,499	25,053
Public Safety	15,718		15,718
Public Works	1,112	200,245	201,357
Health	1,600		1,600
Debt Service:			
Redemption of Principal		10,904	10,904
Interest and Fiscal Charges		1,518	1,518
	<u>36,984</u>	<u>219,166</u>	<u>256,150</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>829</u>	<u>18,994</u>	<u>19,823</u>
Other Financing Receipts and (Disbursements):			
Transfers-In		4,042	4,042
Advances-In	13,000	13,000	26,000
Transfers-Out	(1,717)	(2,325)	(4,042)
Advances-Out	(13,000)	(13,000)	(26,000)
	<u>(1,717)</u>	<u>1,717</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(888)	20,711	19,823
Fund Cash Balances, January 1	<u>1,521</u>	<u>16,486</u>	<u>18,007</u>
Fund Cash Balances, December 31	<u>\$633</u>	<u>\$37,197</u>	<u>\$37,830</u>

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

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

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

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Brush Creek 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, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Village of Roseville and Harrison Township to provide both fire and emergency medical services.

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

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

B. Accounting Basis

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

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

C. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are restricted as to use. The Township classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

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

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

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

FEMA Fund - This fund receives federal and state grant money to pay for the repairing of township roads considered a disaster by the Emergency Management Agency.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

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

F. Property, Plant, and Equipment

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

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:

	<u>2006</u>	<u>2005</u>
Demand deposits	<u>\$56,773</u>	<u>\$37,830</u>

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

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

2. Equity in Pooled Cash (Continued)

Deposits: Deposits are insured entirely by the Federal Deposit Insurance Corporation.

3. Budgetary Activity

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

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$42,420	\$41,738	(\$682)
Special Revenue	125,153	147,377	22,224
Total	\$167,573	\$189,115	\$21,542

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$42,188	\$39,678	\$2,510
Special Revenue	152,092	130,494	21,598
Total	\$194,280	\$170,172	\$24,108

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$38,267	\$37,813	(\$454)
Special Revenue	250,233	242,202	(8,031)
Total	\$288,500	\$280,015	(\$8,485)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$41,216	\$38,701	\$2,515
Special Revenue	256,553	221,491	35,062
Total	\$297,769	\$260,192	\$37,577

Contrary to Ohio law, appropriation amendments were made during both fiscal years 2006 and 2005, in which sufficient support was not provided to document the required board approval. Actions taken in the minutes regarding appropriation amendments/transfers were vague and without adequate detail as to the amount of the budgetary change.

Contrary to Ohio law, the certification of availability of unencumbered appropriations for expenditure was not obtained for all expenditures made during 2006 or 2005.

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

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

4. Property Tax

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

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

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

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

5. Debt

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Promissory Note (Lease-Purchase Agreement)	\$15,654	4.50%
Total	\$15,654	

The Township's promissory note was issued to finance the lease-purchase of a tractor and mower to be used for Township road maintenance. The note is collateralized by the equipment and the Township's taxing authority. The notes are being repaid from the Gasoline Tax fund in annual installments of \$5,694, which includes interest.

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

Year ending December 31:	Promissory Note
2007	\$5,694
2008	5,694
2009	5,694
Total	\$17,082

6. Retirement System

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 plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9% and 8.5%, respectively, of their gross salaries and the Township contributed an amount equaling 13.7% and 13.55%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

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

7. Risk Management

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

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

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

Property Coverage

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

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

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

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

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

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

7. Risk Management (Continued)

Risk Pool Membership (Continued)

Financial Position

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

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$32,031,312	\$30,485,638
Liabilities	<u>(11,443,952)</u>	<u>(12,344,576)</u>
Retained earnings	<u>\$20,587,360</u>	<u>\$18,141,062</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$10,010,963	\$9,177,796
Liabilities	<u>(676,709)</u>	<u>(1,406,031)</u>
Retained earnings	<u>\$9,334,254</u>	<u>\$7,771,765</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$9,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

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

<u>Township Contributions to OTARMA</u>	
2004	\$4,391
2005	\$3,746
2006	\$4,344

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

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

7. Risk Management (Continued)

Risk Pool Membership (Continued)

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

8. Going Concern

The Township has made posting errors which would require decreasing the December 31, 2006 fund balance in the General Fund by \$4,669, increasing the December 31, 2006 fund balance in the Road & Bridge Fund by \$2,968 and increasing the December 31, 2006 fund balance in the Gas Tax Fund by \$1,701. If the Township made these adjustments, the resultant effect would be the General Fund would reflect a (\$1,976) and (\$2,578) negative cash fund balance at December 31, 2006 and 2005, respectively.

The Township has declined to make the adjustments due to the effect on the December 31, 2006 cash fund balance of the General Fund. The Board of Trustees have made no immediate plans to make this adjustment in the future. The Board of Trustees adopted a balanced budget for 2007.

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Mary Taylor, CPA

Auditor of State

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

Brush Creek Township
Muskingum County
3175 Morningstar Road
Blue Rock, Ohio 43720

To the Board of Trustees:

We have audited the financial statements of Brush Creek Township, Muskingum County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated November 20, 2007, wherein we opined the financial statements were not fairly presented since the Township declined to adjust its financial statements or accounting records for improper posting of receipts and disbursements. In addition, 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 the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings 2006-003 and 2006-004 are also material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated November 20, 2007.

Compliance and Other Matters

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

We also noted certain noncompliance or other matters that we reported to the Township's management in a separate letter dated November 20, 2007.

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



Mary Taylor, CPA
Auditor of State

November 20, 2007

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

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

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

Noncompliance Citation and Significant Deficiency

Ohio Rev. Code § 5705.41(D)(1) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached that the amount required for the order or contract 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 encumbrances. The following exceptions to this basic requirement are provided by statute:

1. **“Then and Now” Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from receipt of the “then and now” certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.
2. **Blanket Certificate** – Fiscal officers may prepare so-called “blanket” certificates against any specific line item account over a period not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Blanket certificates may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year.
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. No more than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Township did not certify the availability of funds prior to purchase commitment for thirty-one percent (31%) and fifty-three percent (53%) of 2006 and 2005, respectively, of the expenditures tested during the audit period and there was no evidence the Township followed the aforementioned exceptions. In addition, the Township used blanket certificates throughout the year without the benefit of a resolution or ordinance establishing the amount by which such certificates may not exceed.

During our audit of 2006 and 2005, it was brought to our attention that on October 2, 2007, the Township approved 20/20 Enterprises to chip and seal selected Township roads. This approval of work to be performed by 20/20 Enterprises was not done in a public Board of Trustees meeting. Also, no purchase order was issued and the Fiscal Officer did not certify the availability of funds for this work. The work was in the amounts of \$14,181 and \$560.

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

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

Noncompliance Citation and Significant Deficiency - 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 the Fiscal Officer certify that funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Township certify purchases to which Section 5705.41(D) applies. The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation. In addition we recommend the Township establish a threshold for which blanket certificates may not exceed if they wish to continue issuing regular blanket certificates. Also, the Township should contact their legal counsel concerning the work performed by 20/20 Enterprises on October 2, 2007.

Official's Response:

We did not receive a response from the Township

FINDING NUMBER 2006-002

Noncompliance Citation and Significant Deficiency

Ohio Admin. Code Section 117-2-02(C)(1) states all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The Township did not properly post budgeted receipts as passed for the legislative authority, and subsequent amendments made to them, to the accounting system. Variances existed between the certificate of estimated resources and the amounts posted to the accounting system throughout the year. The following table details these variances at year end for both years under audit:

<u>Fund</u>	<u>Amount Per Last Amended Certificate</u>	<u>Amounts Posted to the Accounting System</u>	<u>Variance</u>
2006 General	\$38,267	\$38,334	\$67
Motor Vehicle License Tax	16,088	16,388	300
Gas Tax	88,072	68,751	(19,321)
2005 Motor Vehicle License Tax	14,000	15,000	1,000

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

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-002 (Continued)

**Noncompliance Citation and Significant Deficiency - Ohio Admin. Code Section 117-2-02(C)(1)
(Continued)**

We recommend the Fiscal Officer record only estimated receipts from the certificate of estimated resources and any amendments thereto. The accompanying budgetary presentation includes only budgeted receipts certified to the County Auditor.

Official's Response:

We did not receive a response from the Township

FINDING NUMBER 2006-003

Finding for Adjustment and Material Weakness

Ohio Rev. Code § 5705.10(D) requires all revenue derived from a specific source which the law prescribes shall be used for a particular purpose shall be credited to a special fund for such purpose.

During 2005 and 2006, the Township received homestead and rollback monies from the State of Ohio. In both fiscal years, the entire amount of homestead and rollback revenues were credited to the general fund, as opposed to being allocated between the General Fund and Road and Bridge Fund. The improper posting of these revenues resulted in the General Fund being overstated and the Road and Bridge Fund being understated by \$1,458 and \$2,968 for 2006 and 2005, respectively. The posting of the cumulative amount of these adjustments would make the December 31, 2006 General Fund cash balance a negative amount.

A finding for adjustment is hereby issued against the General Fund of Brush Creek Township, Muskingum County, in the cumulative amount of \$4,426 and in the favor of the Road and Bridge Fund, Special Revenue Fund type. The Township has declined to post this adjustment to its accounting system or financial statements.

Official's Response:

The officials of the Township declined to make the adjustment.

FINDING NUMBER 2006-004

Finding for Adjustment and Material Weakness

Ohio Rev. Code Section 505.24(C) sets forth the method by which township trustees' compensation should be allocated. This Section is amplified by Ohio Attorney General Opinion No. 2004-036.

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

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-004 (Continued)

Finding for Adjustment and Material Weakness - Ohio Rev. Code Section 505.24(C) (Continued)

- (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 and Bridge Fund.)

- (2) **Trustees receiving compensation by annual salary:** By resolution, RC 505.24(C) permits trustees to receive annual salaries instead of per diem payments. When paid by salary, RC 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 No. 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 documented 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 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 RC 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.

For example, subsequent to the OAG Opinion, it is **not** acceptable for a township to resolve that they will “charge 50% of trustee salaries and benefits to the General Fund and 50% of this compensation to the Road and Bridge Fund.”

Per the resolutions passed by the Board of Trustees for 2006 and 2005, the salaries of the Township trustees were allocated among the General Fund at 8%, Motor Vehicle License Tax Fund at 25%, and Gas Tax Fund at 67%. During 2005, the salaries of the township trustees were allocated 83% to the Gas Tax Fund and 17% to the Motor Vehicle License Tax Fund and no salary amount to the General Fund.

It is necessary for Trustees to document how they spend their time in order to substantiate that salaries were allocated to the funds other than the General Fund.

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-004 (Continued)

Finding for Adjustment and Material Weakness - Ohio Rev. Code Section 505.24(C) (Continued)

A finding for adjustment is hereby issued against the General Fund of Brush Creek Township, Muskingum County, in the amount of \$1,701 (8% of annual salary) in favor of the Gas Tax Fund, Special Revenue Fund type.

Official's Response:

The officials of the Township declined to make the adjustment.

**BRUSH CREEK TOWNSHIP
MUSKINGUM COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	ORC Section 505.24 – Salary guidelines for Township Elected Officials	Yes	Finding for recovery was repaid prior to the release of the prior audit
2004-002	ORC Section 5705.41 (D) – Prior certification of expenditures	No	Not Corrected – Will be repeated in the current audit as finding 2006-001
2004-003	ORC Section 5549.21 – Lease-Purchase agreements for Township	No	Finding No Longer Valid – Although the Township is still paying this debt, because it is not a new agreement, this finding was not repeated
2004-004	ORC Section 5705.39 – Appropriations vs. Estimated Resources	Yes	Finding No Longer Valid
2005-005	Posting of budgeted receipts to the receipts ledger.	No	Not Corrected – Will be repeated in the current audit as finding 2006-002



Mary Taylor, CPA
Auditor of State

BRUSH CREEK 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
DECEMBER 13, 2007**