



**SUGAR CREEK TOWNSHIP
PUTNAM COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006



Mary Taylor, CPA
Auditor of State

**SUGAR CREEK TOWNSHIP
PUTNAM COUNTY**

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Mary Taylor, CPA

Auditor of State

Sugar Creek Township
Putnam County
115 East Findlay Street, P.O. Box 111
Vaughnsville, Ohio 45893-0111

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

September 12, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Sugar Creek Township
Putnam County
115 East Findlay Street, P.O. Box 111
Vaughnsville, Ohio 45893-0111

To the Board of Trustees:

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

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

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

Instead of the combined funds the accompanying financial statements present, GAAP 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 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.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2007 on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

September 12, 2007

**SUGAR CREEK TOWNSHIP
PUTNAM 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: | | | |
| Property and Other Local Taxes | \$17,070 | \$44,173 | \$61,243 |
| Charges for Services | 1 | 6,652 | 6,653 |
| License, Permits, and Fees | | 2,808 | 2,808 |
| Intergovernmental | 26,411 | 106,402 | 132,813 |
| Earnings on Investments | 173 | 48 | 221 |
| Miscellaneous | 4,754 | 1,600 | 6,354 |
| | <u>48,409</u> | <u>161,683</u> | <u>210,092</u> |
| Cash Disbursements: | | | |
| Current: | | | |
| General Government | 49,743 | | 49,743 |
| Public Safety | | 8,673 | 8,673 |
| Public Works | | 127,688 | 127,688 |
| Health | 450 | 9,046 | 9,496 |
| Capital Outlay | | 4,777 | 4,777 |
| Debt Service: | | | |
| Redemption of Principal | 959 | 6,379 | 7,338 |
| Interest and Other Fiscal Charges | 1,041 | 7,035 | 8,076 |
| | <u>52,193</u> | <u>163,598</u> | <u>215,791</u> |
| Total Cash Disbursements Over Cash Receipts | <u>(3,784)</u> | <u>(1,915)</u> | <u>(5,699)</u> |
| Other Financing Disbursements: | | | |
| Other Financing Uses | <u>(1,001)</u> | | <u>(1,001)</u> |
| Excess of Cash Disbursements and Other Financing Disbursements Over Cash Receipts | (4,785) | (1,915) | (6,700) |
| Fund Cash Balances, January 1 | <u>7,274</u> | <u>51,634</u> | <u>58,908</u> |
| Fund Cash Balances, December 31 | <u>\$2,489</u> | <u>\$49,719</u> | <u>\$52,208</u> |

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

**SUGAR CREEK TOWNSHIP
PUTNAM COUNTY**

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

| | <u>Governmental Fund Types</u> | | | Totals (Memorandum Only) |
|--|--------------------------------|----------------------------|-----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | |
| Cash Receipts: | | | | |
| Property and Other Local Taxes | \$18,556 | \$44,777 | | \$63,333 |
| Charges for Services | 1 | 6,652 | | 6,653 |
| Licenses, Permits, and Fees | | 8,067 | | 8,067 |
| Intergovernmental | 42,467 | 97,131 | \$19,000 | 158,598 |
| Special Assessments | 815 | | | 815 |
| Earnings on Investments | 123 | 57 | | 180 |
| Miscellaneous | 10,427 | 3,106 | | 13,533 |
| | <u>72,389</u> | <u>159,790</u> | <u>19,000</u> | <u>251,179</u> |
| Total Cash Receipts | | | | |
| Cash Disbursements: | | | | |
| Current: | | | | |
| General Government | 64,166 | | | 64,166 |
| Public Safety | | 9,294 | | 9,294 |
| Public Works | | 123,412 | | 123,412 |
| Health | | 11,521 | | 11,521 |
| Capital Outlay | 86,062 | 14,779 | 19,000 | 119,841 |
| Debt Service: | | | | |
| Redemption of Principal | 9,389 | | | 9,389 |
| Interest and Other Fiscal Charges | 6,025 | | | 6,025 |
| | <u>165,642</u> | <u>159,006</u> | <u>\$19,000</u> | <u>343,648</u> |
| Total Cash Disbursements | | | | |
| Total Cash Receipts Over/(Under) Cash Disbursements | <u>(93,253)</u> | <u>784</u> | | <u>(92,469)</u> |
| Other Financing Receipts / (Disbursements): | | | | |
| Sale of Notes | 40,853 | | | 40,853 |
| Transfers-In | | 575 | | 575 |
| Transfers-Out | (575) | | | (575) |
| | <u>40,278</u> | <u>575</u> | | <u>40,853</u> |
| Total Other Financing Receipts/ (Disbursements) | | | | |
| Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements | (52,975) | 1,359 | | (51,616) |
| Fund Cash Balances, January 1 | 60,249 | 50,275 | | 110,524 |
| Fund Cash Balances, December 31 | <u><u>\$7,274</u></u> | <u><u>\$51,634</u></u> | | <u><u>\$58,908</u></u> |

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

**SUGAR CREEK TOWNSHIP
PUTNAM 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 Sugar Creek Township, Putnam County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance and cemetery maintenance. The Township contracts with the Villages of Kalida, Columbus Grove, and Fort Jennings to provide fire services.

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 to pay for constructing, maintaining, and repairing Township roads.

**SUGAR CREEK TOWNSHIP
PUTNAM COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

3. Capital Project Fund

This fund accounts for receipts restricted to acquiring or constructing major capital projects. The Township had the following significant capital project fund:

Issue II Fund - The Township received a grant from the State of Ohio for road repair.

D. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

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

E. Property, Plant, and Equipment

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

F. Accumulated Leave

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

**SUGAR CREEK TOWNSHIP
PUTNAM COUNTY**

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

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:

| | | |
|-----------------|----------|----------|
| | 2006 | 2005 |
| Demand deposits | \$52,208 | \$58,908 |

Deposits are insured by the Federal Depository 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 | \$61,037 | \$48,409 | (\$12,628) |
| Special Revenue | 163,645 | 161,683 | (1,962) |
| Total | \$224,682 | \$210,092 | (\$14,590) |

2006 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|-----------------|----------------------------|---------------------------|-------------|
| General | | \$53,194 | (\$53,194) |
| Special Revenue | | 163,598 | (163,598) |
| Total | | \$216,792 | (\$216,792) |

2005 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|------------------|----------------------|--------------------|----------|
| General | \$102,251 | \$113,242 | \$10,991 |
| Special Revenue | 151,323 | 160,365 | 9,042 |
| Capital Projects | | 19,000 | 19,000 |
| Total | \$253,574 | \$292,607 | \$39,033 |

**SUGAR CREEK TOWNSHIP
PUTNAM COUNTY**

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

3. BUDGETARY ACTIVITY – (CONTINUED)

| 2005 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$177,914 | \$166,217 | \$11,697 |
| Special Revenue | 212,627 | 159,006 | 53,621 |
| Capital Projects | | 19,000 | (19,000) |
| Total | \$390,541 | \$344,223 | \$46,318 |

In 2006 the Township did not approve permanent appropriations resulting in budgetary expenditures exceeding appropriation authority in the General Fund and all the Special Revenue Funds contrary to Ohio law. Also approved appropriations did not agree with posted appropriations for all of the funds in 2006, contrary to Ohio law.

In 2005 the Township was the beneficiary of \$19,000 of Ohio Public Works Commission (OPWC) money sent directly to the vendor by OPWC. This activity was not recorded on the ledgers of the Township. These funds were not appropriated causing expenditures to exceed appropriations in the Issue II fund by \$19,000 in 2005.

4. PROPERTY TAX

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

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.

**SUGAR CREEK TOWNSHIP
PUTNAM COUNTY**

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

5. DEBT

Debt outstanding at December 31, 2006 was as follows:

| | Principal | Interest Rate |
|---------------------|-----------|---------------|
| Open Ended Mortgage | \$175,258 | 4% |

The Township entered into an open ended mortgage in 2004. The Township has the ability to borrow up to \$210,000. The mortgage is for 20 years with the final payment due in 2024. There is no statutory authority for the Township to enter into this type of debt agreement.

As of December 31, 2006, the Township had drawn \$192,866 on this mortgage. The following amortization assumes the entire \$210,000 available will be drawn. Amortization of the above debt, including interest, is scheduled as follows:

| Year ending December 31: | Open Ended Mortgage |
|--------------------------|------------------------|
| 2007 | \$15,356 |
| 2008 | 15,356 |
| 2009 | 15,356 |
| 2010 | 15,356 |
| 2011 | 15,356 |
| 2012-2016 | 76,780 |
| 2017-2021 | 76,780 |
| 2022-2024 | 46,068 |
| Total | \$276,408 |

6. RETIREMENT SYSTEM

The Township's officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plan's 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.

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.

**SUGAR CREEK TOWNSHIP
PUTNAM COUNTY**

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

7. RISK MANAGEMENT – (CONTINUED)

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

Casualty Coverage

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

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.

**SUGAR CREEK TOWNSHIP
PUTNAM COUNTY**

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

7. RISK MANAGEMENT – (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.

| | | |
|--------------------------|---------------------|---------------------|
| <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 \$8,000. 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.

Contributions to OTARMA

| | |
|------|---------|
| 2004 | \$3,955 |
| 2005 | \$3,808 |
| 2006 | \$3,955 |

**SUGAR CREEK TOWNSHIP
PUTNAM COUNTY**

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

7. RISK MANAGEMENT – (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.



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*

Sugar Creek Township
Putnam County
115 East Findlay Street, P.O. Box 111
Vaughnsville, Ohio 45893-0111

To the Township Board of Trustees:

We have audited the financial statements of Sugar Creek Township, Putnam County, (the Township) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated September 12, 2007, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001, 2006-002, 2006-003, 2006-004, and 2006-005.

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

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

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated September 12, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2006-002, 2006-003, 2006-004, and 2006-005.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated September 12, 2007.

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



Mary Taylor, CPA
Auditor of State

September 12, 2007

**SUGAR CREEK TOWNSHIP
PUTNAM COUNTY**

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

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

Material Weakness

Financial Reporting

Inaccurate posting of transactions impedes the ability of the Trustees to accurately assess the financial status of the Township. We noted examples such as the following during our audit:

- On-behalf monies of \$19,000 for an Issue II project were not posted to the financial statements.
- Township Road Allowance for \$13, 304 was posted to miscellaneous revenue instead of charges for services
- Debt payments of \$30,828 were posted to various expenditures line items

As a result, the Township's financial statements did not correctly reflect the financial activity of the Township. The accompanying financial statements have been adjusted so these transactions reflect their intended use.

We recommend that the Fiscal Officer post all transactions in accordance with the guidance established by the Uniform Accounting Network manual. Further, the Township should adopt policies and procedures including a final review of the financial statements by the Fiscal Officer and Trustees to ensure that errors and omissions are detected and corrected.

Official's Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-002

Noncompliance Citation/Material Weakness

Ohio Revised Code § 5705.41 (B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. Ohio Revised Code §5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1. For fiscal year ending December 31, 2006, the Township never adopted appropriations. This caused the Township's expenditures to exceed appropriations in the following funds at December 31, 2006,

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

| Fund | Actual Expenditures |
|--|----------------------------|
| For the Year Ended December 31, 2006: | |
| General | \$ 53,194 |
| Motor Vehicle License Tax Fund | 16,708 |
| Gas Tax Fund | 86,698 |
| Road and Bridge Fund | 28,151 |
| Cemetery Fund | 10,546 |
| Fire District Fund | 8,673 |
| Road District Fund | 12,822 |

Allowing expenditures to exceed appropriations could result in deficit spending. The Township Officials should adopt appropriation measures as soon as practical at the beginning of the year and regularly monitor budgets to make sure that there are sufficient appropriations to fund anticipated expenditures.

The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Official's Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-003

Noncompliance citation/Material Weakness

Ohio Revised Code § 5705.40 provides that appropriation measures may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. In fiscal year 2006 and 2005, changes were made to the Township's appropriation ledger with no documented Board approval for the following funds:

| Fund | Approved Appropriations | Posted Appropriations | Difference |
|--|--------------------------------|------------------------------|-------------------|
| For the Year Ended December 31, 2006: | | | |
| General Fund | | \$ 68,311 | \$ 68,311 |
| Motor Vehicle License Tax Fund | | 20,890 | 20,890 |
| Gas Tax Fund | | 98,722 | 98,722 |
| Road and Bridge Fund | | 37,688 | 37,688 |
| Cemetery Fund | | 18,113 | 18,113 |
| Fire District Fund | | 11,974 | 11,974 |
| Road District Fund | | 27,834 | 27,834 |
| For the Year Ended December 31, 2005: | | | |
| General Fund | 177,914 | 181,128 | 3,214 |

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

This condition may result in a deficit spending situation. The Fiscal Officer should only make modifications to the appropriations ledger based on formally documented approval of the Board.

Management adjusted the accompanying budgetary presentation to agree appropriations to amounts the Board approved.

Official's Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-004

Noncompliance Citation/Material Weakness

Ohio Revised Code § 5705.42 states when the United States government or the state or any department division, agency, authority or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity or function of such subdivision, or enters into an agreement with the subdivision for the making of any such grant or loan of money, the amount thereof is deemed appropriated for such purposes by the taxing authority of the subdivision, and is deemed in the process of collection within the meaning of § 5705.41, of the Ohio Revised Code.

In 2005, the Township was the beneficiary of \$19,000 of Ohio Public Work Commission (OPWC) money sent directly to the vendor by OPWC. This activity was not recorded on the ledgers of the Township. Since OPWC paid the invoices, the Township did not receive this cash. However, Auditor of State Bulletin 2000-008 and 2002-004 prescribe recording these transactions as receipts and disbursements when the Township applies for a project and has administrative responsibilities. The accompanying financial statements were adjusted to reflect these amounts in a Capital Project Fund. These funds also were not appropriated causing expenditures to exceed appropriations in the Issue II Fund by \$19,000 in 2005, contrary to Ohio Revised Code § 5705.41(B) which requires all expenditures to be appropriated.

We recommend the Township record all benefits received from state or federal grants as a memo receipt and expenditure on the Township's records and appropriate funds for the expenditures. In addition, Township management should review Auditor of State Bulletins 2000-008 and 2002-004.

Official's Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-005

Noncompliance Citation/Material Weakness

Ohio Revised Code § 505.262(A) authorizes a board of township trustees, by unanimous vote, to adopt a resolution allowing the township to contract for the purchase of equipment, buildings, and sites, or for the construction of buildings, for any lawful township purpose. According to this section, however, a township is not authorized to grant a lender or vendor a security interest in property purchased and financed by the board in accordance with the terms of this section. See Ohio Attorney General Opinion 96-048.

**FINDING NUMBER 2006-005
(Continued)**

On August 27, 2004, the Township entered into a \$210,000 open-ended, 20-year mortgage for the construction of a Township building. This mortgage gave the lender a security interest in the property. As noted above, there is no statutory authority for issuing this type of debt.

We recommend the Township consult with its legal counsel on how to correct this debt agreement. Additionally, we recommend that the Township consult with its legal counsel before entering into any future debt agreements.

Official's Response

We did not receive a response from Officials to this finding.

**SUGAR CREEK TOWNSHIP
PUTNAM COUNTY**

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

| 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 | Ohio Revised Code § 5705.41 (D) Outstanding purchase commitments not certified at year end | No | Partially corrected reducing this to a management letter comment. |
| 2004-002 | Ohio Revised Code § 5705.42 Not posting on-behalf payments | No | Not corrected. This finding has been repeated in this report as item 2006-004. |
| 2004-003 | Ohio Revised Code § 505.262(A) No statutory authority for issuing mortgage debt | No | Not corrected. This finding has been repeated in this report as item 2006-005. |



Mary Taylor, CPA
Auditor of State

SUGAR CREEK TOWNSHIP

PUTNAM 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
OCTOBER 9, 2007**