

**MCKEAN TOWNSHIP
LICKING COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2006



Mary Taylor, CPA
Auditor of State

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, 2006 through December 31, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 13, 2008

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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, 2006, 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 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. 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 McKean Township, Licking County, Ohio, as of December 31, 2006, and the respective changes in cash basis financial position thereof and the respective budgetary comparisons for the General, Gas Tax, Road & Bridge, and Fire District funds for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2008, 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.

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

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Wilson, Shuman & Snow, Inc.

July 20, 2008

**MCKEAN TOWNSHIP, LICKING COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

This discussion and analysis of 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, 2006, 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 2006 are as follows:

- Net assets of governmental activities increased \$23,953 or 20%, a significant change from the prior year. This increase is primarily attributed to decreased expenditures within the Gas Tax Fund of \$20,549 from 2005.
- The Township's general receipts are primarily property taxes and intergovernmental receipts. These receipts represent 95% of the total cash received for governmental activities during the year. Property tax and intergovernmental receipts for 2006 changed very little compared to 2005.

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 accounting principles generally accepted in the United States of America. Under the Township's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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.

**MCKEAN TOWNSHIP, LICKING COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

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 2006, 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.

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.

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.

**MCKEAN TOWNSHIP, LICKING COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

The Township as a Whole

Table 1 provides a summary of the Township's net assets for 2006 compared to 2005 on a cash basis:

(Table 1)
Net Assets

	Governmental Activities	
	2006	2005
Assets		
Cash and Cash Equivalents	\$ 143,725	\$ 119,772
Total Assets	\$ 143,725	\$ 119,772
Net Assets		
Restricted for:		
Transportation Services	90,767	35,100
Fire Services	133	0
Debt Service	2,364	5,172
Permanent Fund	240	237
Other Purposes	7,884	21,866
Unrestricted	42,337	57,397
Total Net Assets	\$143,725	\$119,772

As mentioned previously, net assets of governmental activities increased \$23,953 or 20%, during 2006. The primary reasons contributing to the decreases in cash balances are as follows:

- The Township decreased expenditures within the Gas Tax Fund of \$20,549 from 2005.

**MCKEAN TOWNSHIP, LICKING COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

Table 2 reflects the changes in net assets in 2006 compared to 2005 on a cash basis.

(Table 2)
Changes in Net Assets

	Governmental Activities 2006	Governmental Activities 2005	Change
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$9,706	\$5,657	\$4,049
Operating Grants and Contributions	100,168	113,456	(13,288)
Total Program Receipts	<u>109,874</u>	<u>119,113</u>	<u>(9,239)</u>
General Receipts:			
Property and Other Local Taxes	147,957	131,746	16,211
Grants and Entitlements Not Restricted to Specific Programs	58,529	56,422	2,107
Interest	2,300	1,580	720
Miscellaneous	3,237	3,523	(286)
Notes Issued	0	16,000	(16,000)
Sale of Capital Assets	0	13,838	(13,838)
Total General Receipts	<u>212,023</u>	<u>223,109</u>	<u>(11,086)</u>
Total Receipts	<u>321,897</u>	<u>342,222</u>	<u>(20,325)</u>
Disbursements:			
General Government	81,065	112,478	(31,413)
Public Safety	67,022	57,713	9,309
Public Works	119,700	144,450	(24,750)
Health	5,531	5,525	6
Capital Outlay	5,725	19,757	(14,032)
Debt Service	18,901	10,843	8,058
Total Disbursements	<u>297,944</u>	<u>350,766</u>	<u>(52,822)</u>
Increase (Decrease) in Net Assets	23,953	(8,544)	32,497
Net Assets, January 1	<u>119,772</u>	<u>128,316</u>	<u>(8,544)</u>
Net Assets, December 31	<u>\$143,725</u>	<u>\$119,772</u>	<u>\$23,953</u>

Program receipts represent 34% of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gasoline taxes.

General receipts represent 66% of the Township's total receipts, and of this amount, 70% are local taxes. State grants and entitlements make up the balance of the Township's general receipts (28%). 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 is 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, 2006
UNAUDITED**

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 67% 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 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
General Government	\$ 81,065	\$ 75,008	\$ 112,478	\$ 97,606
Public Safety	67,022	67,022	57,713	57,713
Public Works	119,700	19,532	144,450	40,909
Health	5,531	1,882	5,525	4,825
Capital Outlay	5,725	5,725	19,757	19,757
Debt Service	18,901	18,901	10,843	10,843
Total Expenses	\$ 297,944	\$ 188,070	\$ 350,766	\$ 231,653

The dependence upon property taxes and intergovernmental receipts is apparent as these receipts represent 95% of the total cash received for governmental activities during the year.

The Township's Funds

Total governmental funds had receipts and other financing sources of \$321,897 and disbursements and other financing uses of \$297,944. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$15,060 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 \$15,060 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 \$91,085 and disbursements of \$47,116 noting an increase in fund balance to \$79,069 from \$35,100.

The Road & Bridge fund had receipts of \$57,682 and disbursements of \$56,420 noting an increase in fund balance of \$1,262 to \$10,355 from \$9,093.

The Fire District fund had receipts of \$67,155 and disbursements of \$67,022 noting a slight increase in fund balance to \$133.

**MCKEAN TOWNSHIP, LICKING COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

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 2006, the Township amended its General Fund budget several times. Original estimated receipts were increased \$10,100 to \$67,691 and final appropriations were increased \$10,100 to \$118,995.

Final disbursements were budgeted at \$118,995 while actual disbursements were \$81,935. 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, 2006, the Township's outstanding debt included \$10,913 in general obligation notes issued for the purchase of a Township vehicle. For further information regarding the Township's debt, refer to Note 10 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 for monthly news.

**MCKEAN TOWNSHIP
LICKING COUNTY**

*Statement of Net Assets - Cash Basis
December 31, 2006*

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$143,725</u>
<i>Total Assets</i>	<u><u>\$143,725</u></u>
Net Assets	
Restricted for:	
Transportation Services	\$90,767
Fire Services	133
Debt Service	2,364
Other Purposes	7,884
Permanent Fund:	
Expendable	100
NonExpendable	140
Unrestricted	<u>42,337</u>
<i>Total Net Assets</i>	<u><u>\$143,725</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, 2006*

	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
Governmental Activities				
General Government	\$81,065	\$6,057	\$0	(\$75,008)
Public Safety	67,022	0	0	(67,022)
Public Works	119,700	0	100,168	(19,532)
Health	5,531	3,649	0	(1,882)
Capital Outlay	5,725	0	0	(5,725)
Debt Service	18,901	0	0	(18,901)
Total	<u>\$297,944</u>	<u>\$9,706</u>	<u>\$100,168</u>	<u>(188,070)</u>
General Receipts				
Property Taxes				147,957
Grants and Entitlements not Restricted to Specific Programs				58,529
Interest				2,300
Miscellaneous				3,237
<i>Total General Receipts</i>				<u>212,023</u>
Change in Net Assets				23,953
<i>Net Assets Beginning of Year</i>				<u>119,772</u>
<i>Net Assets End of Year</i>				<u>\$143,725</u>

See accompanying notes to the basic financial statements

**MCKEAN TOWNSHIP
LICKING COUNTY**

*Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2006*

	General	Gas Tax	Road & Bridge	Fire District	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$42,337	\$79,069	\$10,355	\$133	\$11,831	\$143,725
<i>Total Assets</i>	<u>\$42,337</u>	<u>\$79,069</u>	<u>\$10,355</u>	<u>\$133</u>	<u>\$11,831</u>	<u>\$143,725</u>
Fund Balances						
Unreserved:						
Reported in:						
General Fund	42,337	0	0	0	0	42,337
Special Revenue Funds	0	79,069	10,355	133	9,227	98,784
Debt Service Fund	0	0	0	0	2,364	2,364
Permanent Fund	0	0	0	0	240	240
<i>Total Fund Balances</i>	<u>\$42,337</u>	<u>\$79,069</u>	<u>\$10,355</u>	<u>\$133</u>	<u>\$11,831</u>	<u>\$143,725</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, 2006*

	General	Gas Tax	Road & Bridge	Fire District	Other Governmental Funds	Total Governmental Funds
Cash Receipts						
Property and Other Local Taxes	\$24,075	\$0	\$50,375	\$58,822	\$14,685	\$147,957
Licenses, Permits and Fees	1,856	0	0	0	7,850	9,706
Intergovernmental	41,253	90,204	7,265	8,333	11,642	158,697
Interest	1,420	846	0	0	34	2,300
Other	0	35	42	0	34	111
<i>Total Cash Receipts</i>	<u>68,604</u>	<u>91,085</u>	<u>57,682</u>	<u>67,155</u>	<u>34,245</u>	<u>318,771</u>
Cash Disbursements						
Current:						
General Government	76,210	0	0	0	0	76,210
Public Safety	0	0	0	67,022	0	67,022
Public Works	0	47,116	56,420	0	16,164	119,700
Health	0	0	0	0	5,531	5,531
Capital Outlay	5,725	0	0	0	0	5,725
Debt Service:						
Principal Retirement	0	0	0	0	17,687	17,687
Interest and Fiscal Charges	0	0	0	0	1,214	1,214
<i>Total Cash Disbursements</i>	<u>81,935</u>	<u>47,116</u>	<u>56,420</u>	<u>67,022</u>	<u>40,596</u>	<u>293,089</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(13,331)</u>	<u>43,969</u>	<u>1,262</u>	<u>133</u>	<u>(6,351)</u>	<u>25,682</u>
Other Financing Sources (Uses)						
Other Financing Sources	3,126	0	0	0	0	3,126
Other Financing Uses	(4,855)	0	0	0	0	(4,855)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,729)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,729)</u>
<i>Net Change in Fund Balances</i>	<u>(15,060)</u>	<u>43,969</u>	<u>1,262</u>	<u>133</u>	<u>(6,351)</u>	<u>23,953</u>
<i>Fund Balances Beginning 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>
<i>Fund Balances End of Year</i>	<u><u>\$42,337</u></u>	<u><u>\$79,069</u></u>	<u><u>\$10,355</u></u>	<u><u>\$133</u></u>	<u><u>\$11,831</u></u>	<u><u>\$143,725</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)
General Fund
For the Year Ended December 31, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Cash Receipts				
Property and Other Local Taxes	\$20,941	\$20,941	\$24,075	\$3,134
Licenses, Permits and Fees	1,300	1,300	1,856	556
Intergovernmental	34,900	45,000	41,253	(3,747)
Interest	450	450	1,420	970
<i>Total Cash Receipts</i>	<i>57,591</i>	<i>67,691</i>	<i>68,604</i>	<i>913</i>
Cash Disbursements				
Current:				
General Government	99,895	109,995	76,210	33,785
Capital Outlay	9,000	9,000	5,725	3,275
<i>Total Cash Disbursements</i>	<i>108,895</i>	<i>118,995</i>	<i>81,935</i>	<i>37,060</i>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<i>(51,304)</i>	<i>(51,304)</i>	<i>(13,331)</i>	<i>37,973</i>
Other Financing Sources (Uses)				
Other Financing Sources	0	0	3,126	3,126
Other Financing Uses	(6,000)	(5,500)	(4,855)	645
<i>Total Other Financing Sources (Uses)</i>	<i>(6,000)</i>	<i>(5,500)</i>	<i>(1,729)</i>	<i>3,771</i>
<i>Net Change in Fund Balance</i>	<i>(57,304)</i>	<i>(56,804)</i>	<i>(15,060)</i>	<i>41,744</i>
<i>Fund Balance Beginning of Year</i>	<i>57,397</i>	<i>57,397</i>	<i>57,397</i>	<i>0</i>
<i>Fund Balance End of Year</i>	<i>\$93</i>	<i>\$593</i>	<i>\$42,337</i>	<i>\$41,744</i>

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, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Cash Receipts				
Intergovernmental	\$89,059	\$89,059	\$90,204	\$1,145
Interest	225	225	846	621
Other	0	0	35	35
<i>Total Cash Receipts</i>	<u>89,284</u>	<u>89,284</u>	<u>91,085</u>	<u>1,801</u>
Cash Disbursements				
Current:				
Public Works	<u>111,751</u>	<u>111,751</u>	<u>47,116</u>	<u>64,635</u>
<i>Total Cash Disbursements</i>	<u>111,751</u>	<u>111,751</u>	<u>47,116</u>	<u>64,635</u>
<i>Net Change in Fund Balance</i>	(22,467)	(22,467)	43,969	66,436
<i>Fund Balance Beginning of Year</i>	<u>35,100</u>	<u>35,100</u>	<u>35,100</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$12,633</u></u>	<u><u>\$12,633</u></u>	<u><u>\$79,069</u></u>	<u><u>\$66,436</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, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Cash Receipts				
Property and Other Local Taxes	\$50,343	\$50,343	\$50,375	\$32
Intergovernmental	6,500	6,500	7,265	765
Other	0	0	42	42
<i>Total Cash Receipts</i>	<u>56,843</u>	<u>56,843</u>	<u>57,682</u>	<u>839</u>
Disbursements				
Current:				
Public Works	64,792	64,792	56,420	8,372
<i>Total Cash Disbursements</i>	<u>64,792</u>	<u>64,792</u>	<u>56,420</u>	<u>8,372</u>
<i>Net Change in Fund Balance</i>	(7,949)	(7,949)	1,262	9,211
<i>Fund Balance Beginning of Year</i>	<u>9,093</u>	<u>9,093</u>	<u>9,093</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$1,144</u></u>	<u><u>\$1,144</u></u>	<u><u>\$10,355</u></u>	<u><u>\$9,211</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, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Cash Receipts				
Property and Other Local Taxes	\$62,162	\$62,162	\$58,822	(\$3,340)
Intergovernmental	3,281	3,281	8,333	5,052
<i>Total Cash Receipts</i>	<u>65,443</u>	<u>65,443</u>	<u>67,155</u>	<u>1,712</u>
Disbursements				
Current:				
Public Safety	65,443	65,443	67,022	(1,579)
<i>Total Cash Disbursements</i>	<u>65,443</u>	<u>65,443</u>	<u>67,022</u>	<u>(1,579)</u>
<i>Net Change in Fund Balance</i>	0	0	133	133
<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>\$0</u>	<u>\$133</u>	<u>\$133</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, 2006**

Note 1 – Reporting Entity

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 Granville and Monroe Townships 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 7 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, 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, 2006
(CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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.

B. 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:

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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.

C. 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.

D. 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.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (continued)

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.

E. 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 2006, 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 2006 was \$1,420.

F. 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, 2006.

G. 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.

H. 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.

I. 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, 2006.

J. 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 cash basis of accounting.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 2 – Summary of Significant Accounting Policies (continued)

K. 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 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. 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.

M. 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. Restricted net assets reported by the Township were not by enabling legislation.

N. 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, 2006. 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, 2006.

O. 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, 2006.

P. 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, 2006.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 3 – Compliance

The Township did not properly certify expenditures in a timely manner contrary to Ohio Revised Code Section 5705.41(D). In addition, the Township had expenditures in excess of appropriations contrary to Ohio Revised Code Section 5705.41(B).

Note 4 – 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, 2006.

Note 5 – 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;

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 5 - Deposits and Investments (continued)

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;
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, \$43,725 of the Township's bank balance of \$143,725 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 6- Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the Township. Property tax revenue received during 2006 for real and public utility property taxes represents collections of 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) is for 2006 taxes.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 6 – Property Taxes (continued)

2006 real property taxes are levied after October 1, 2006, on assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of the appraised value. 2006 real property taxes are collected in and intended to finance 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2006, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments for machinery and equipment are 25 percent of true value and 23 percent of true value of inventory.

The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009.

The full tax rate for all Township operations for the year ended December 31, 2006, was \$7.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property	
Residential	\$24,337,670
Agriculture	10,717,080
Commercial/Industrial/Mineral	1,270,320
Public Utility Property	
Personal	1,782,630
Tangible Personal Property	272,190
Total Assessed Value	<u><u>\$38,379,890</u></u>

Note 7 – Risk Management

Risk Pool Membership

The Township belongs to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 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, 2006
(CONTINUED)**

Note 7 – 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 retains 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.

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 financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005:

	2006	2005
Assets	\$9,620,148	\$8,219,430
Liabilities	(3,329,620)	(2,748,639)
Members' Equity	\$6,290,528	\$5,470,791

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

Note 8 – 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 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006
(CONTINUED)**

Note 8 – Defined Benefit Pension Plan (continued)

For the year ended December 31, 2006, the members of all three plans were required to contribute 9 percent of their annual covered salaries. The Township's contribution rate for pension benefits for 2006 was 13.7 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Township's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$17,802, \$15,701 and \$14,796 respectively; noting 100% has been contributed for 2007, 2006, and 2005.

Note 9 – Postemployment Benefits

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 recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. 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 2006 local government employer contribution rate was 13.7 percent of covered payroll; 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 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 .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between .50 and 6 percent annually for the next nine years and 4 percent annually after nine 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, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$128,436. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 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. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, 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, 2006
(CONTINUED)**

Note 10 – Debt

The Township’s long-term debt activity for the year ended December 31, 2006, was as follows:

	Interest Rate	(Restated) Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Notes:						
1998 Dump Truck	3.5%	\$12,600	\$0	(\$12,600)	\$0	\$0
2005 Dump Truck	4.6	16,000	0	(5,087)	10,913	5,339
Total		<u>\$28,600</u>	<u>\$0</u>	<u>(\$17,687)</u>	<u>\$10,913</u>	<u>\$5,339</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
2007	\$5,339	\$502
2008	5,574	257
Totals	<u>\$10,913</u>	<u>\$759</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 McKean Township, Licking County, (the Township) as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements and have issued our report thereon dated July 20, 2008, wherein we noted the Township prepared its financial statements on the cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 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 and responses to be significant deficiencies in internal control over financial reporting: 2006-001 through 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.

Wilson, Shannon & Snow, Inc.

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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 2006-005 are also material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated July 20, 2008.

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 and responses as items 2006-001 and 2006-002.

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Township's responses, and, accordingly, we express no opinion on them.

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

Wilson Shuman & Sons, Inc.

Newark, Ohio
July 20, 2008

**MCKEAN TOWNSHIP
LICKING COUNTY**

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

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2006-001
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Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer’s certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in Ohio Revised Code Sections 5705.41(D)(1) and 5705.41(D)(3), respectively:

Then and Now Certificate - If the fiscal officer can certify that both at the time the contract or order was made and at the time that he/she is completing his/her certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority 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 taxing authority.

Blanket Certificate – Fiscal officers may prepare “blanket” certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current year. The blanket certificate 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. Certificates may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend beyond the end of the fiscal year. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

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

We noted that 44% of expenditures tested were not properly certified by the Fiscal Officer prior to incurring the commitment. It was also found that none of the three exceptions noted above were utilized.

We recommend the Fiscal Officer certify the availability of funds prior to incurring the commitment or any obligations. In addition, the Fiscal Officer should notify all employees of the requirements of Ohio Revised Code Section 5705.41(D) and the importance of certifying availability of funds.

Official’s response: The Fiscal Officer will develop procedures to ensure expenditures are properly certified.

**MCKEAN TOWNSHIP
LICKING COUNTY**

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

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

Finding Number	2006-002
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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. The following fund which had expenditures exceeding appropriations at December 31, 2006:

<u>Major Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Noncompliance</u>
Fire District Fund – Other Expenses	\$65,443	\$67,022	(\$1,579)

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

Official's response: The Township will monitor appropriations to ensure compliance.

Finding Number	2006-003
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Revenue and Expenditure Posting

The Ohio Township Manual, Ohio Administrative Code, and the Uniform Accounting Network manual provide for the proper classification of receipts and disbursements by a Township. We noted the following receipts and disbursements recorded by the Township which were incorrectly posted in 2006:

- Rollback and homestead receipts were not recorded as intergovernmental revenue in the Road and Bridge and Other Governmental Debt Service Funds;
- Motor vehicle license fees were recorded as miscellaneous revenue in the Other Governmental Special Revenue Funds instead of intergovernmental;
- Fees, Licenses and Permits received within the Other Governmental Cemetery Fund were improperly recorded as miscellaneous revenue;
- Debt Service expenditures were not properly recorded as principal and interest within the accounting records.

We recommend the Fiscal Officer review the Ohio Township Manual, Ohio Administrative Code, and the Uniform Accounting Network manual for proper receipt and disbursement classifications to help ensure those receipts and disbursements are posted to correct line items.

Official's response: The Fiscal Officer will develop procedures to ensure revenues and expenditures are properly posted.

**MCKEAN TOWNSHIP
LICKING COUNTY**

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

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2006-004
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Cemetery Receipts

The following control deficiencies were noted over cemetery receipts:

- The Fiscal Officer did not maintain an easily identifiable audit trail substantiating cemetery collections received. This would include the retention of receipts issued to customers as well as recording of receipts from openings, closings, sale of lots, and other cemetery receipts in a separate general ledger from the Township's computerized general ledger;
- The Fiscal Officer will collect prepaid receipts from openings, closings, sale of lots, and other cemetery receipts which are payable to the Fiscal Officer over a period of time. We noted that these prepaid cemetery receipts are accounted for on index cards for each customer and an easily identifiable audit trail is not maintained. Furthermore, nothing came to our attention to indicate approval from the Township Trustees authorizing the receipt of prepaid openings, closings, sale of lots, or other cemetery receipts received.

The above control deficiencies can result in an inability to manage and monitor operations in an effective manner. To strengthen existing operations, management should consider the following:

- The Fiscal Officer should retain all duplicate receipts issued and maintain a separate general ledger from the Township's computerized general ledger. Maintaining this type of documentation will assist in reconciling collections and help provide an audit trail for the amounts recorded within the Township's computerized general ledger.
- The Board of Trustees should adopt a policy for the receipt of prepaid openings, closings, sale of lots, and other cemetery receipts to ensure proper accountability of receipts over time.

Official's response: The Township will develop procedures to account for and track cemetery receipts.

Finding Number	2006-005
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Financial Reporting

The American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the auditor to report in writing to management and governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses.

**MCKEAN TOWNSHIP
LICKING COUNTY**

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

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2006-005 (Continued)
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We noted the following control deficiencies when testing the Township’s internal control over financial reporting:

- The basic financial statements prepared by the Fiscal Officer and presented for audit were incomplete and required major revisions. This included the addition of significant note disclosures as well as additions to the Management Discussion & Analysis to comply with the Governmental Accounting Standards Board reporting requirements;
- We identified significant audit adjustments and reclassifications based on the improper posting of receipts and disbursements.

The compilation and presentation of the financial statements and the related footnotes is the responsibility of management. This responsibility remains intact if management decides to outsource this function for efficiency purposes or any other reason.

We recommend that the Township develop and continue to monitor internal control procedures associated with the drafting and preparation of the financial statements and footnotes in order to enable management to identify, prevent, detect, and correct potential misstatements in the financial statements and footnotes. In addition, while developing these procedures management should reduce its reliability on the Township’s auditors to perform this internal control procedure as auditors must remain independent.

Official’s response: The Township will develop procedures to address the financial reporting concerns identified.

**MCKEAN TOWNSHIP
LICKING 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; <u>Explain:</u>
2005-001	Ohio Rev. Code Section 5705.39 states that the total appropriations from each fund should not exceed the total estimated resources available.	Yes	N/A
2005-002	Ohio Revise Code Section 5705.41(B) requires that no subdivision is to expend monies unless it has been properly appropriated.	No	Re-issued as Finding number 2006-002.



Mary Taylor, CPA
Auditor of State

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
NOVEMBER 6, 2008**