



**Auditor of State
Betty Montgomery**

**SUGARCREEK TOWNSHIP
TUSCARAWAS COUNTY**

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**Auditor of State
Betty Montgomery**

Sugarcreek Township
Tuscarawas County
225 Rhine Street
Sugarcreek, Ohio 44681

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

September 1, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Sugarcreek Township
Tuscarawas County
225 Rhine Street
Sugarcreek, Ohio 44681

To the Board of Trustees:

We have audited the accompanying financial statements of Sugarcreek Township, Tuscarawas County, Ohio, (the Township) as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements. Since this Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2005 and 2004, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Sugarcreek Township, Tuscarawas County, Ohio, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

September 1, 2006

**SUGARCREEK TOWNSHIP
TUSCARAWAS COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$85,065	\$179,404	\$264,469
Licenses, Permits, and Fees		8,300	8,300
Intergovernmental Receipts	87,994	128,351	216,345
Earnings on Investments	590	89	679
Miscellaneous	5,059	4,823	9,882
	<u>178,708</u>	<u>320,967</u>	<u>499,675</u>
Cash Disbursements:			
Current:			
General Government	139,834	973	140,807
Public Safety		31,980	31,980
Public Works		258,085	258,085
Health		32,514	32,514
Capital Outlay	11	600	611
	<u>139,845</u>	<u>324,152</u>	<u>463,997</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>38,863</u>	<u>(3,185)</u>	<u>35,678</u>
Other Financing Receipts and (Disbursements):			
Transfers-In		30,957	30,957
Transfers-Out		(30,957)	(30,957)
	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	38,863	(3,185)	35,678
Fund Cash Balances, January 1	<u>17,817</u>	<u>127,382</u>	<u>145,199</u>
Fund Cash Balances, December 31	<u>\$56,680</u>	<u>\$124,197</u>	<u>\$180,877</u>
Reserves for Encumbrances, December 31	<u>\$1,296</u>	<u>\$2,291</u>	<u>\$3,587</u>

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

**SUGARCREEK TOWNSHIP
TUSCARAWAS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$73,410	\$156,222	\$229,632
Licenses, Permits, and Fees		9,850	9,850
Intergovernmental Receipts	50,337	97,411	147,748
Earnings on Investments	384	42	426
Miscellaneous	5,663	14,655	20,318
			<hr/>
Total Cash Receipts	129,794	278,180	407,974
			<hr/>
Cash Disbursements:			
Current:			
General Government	139,007	1,027	140,034
Public Safety		117,100	117,100
Public Works		161,812	161,812
Health		32,416	32,416
Capital Outlay	361	13,998	14,359
			<hr/>
Total Cash Disbursements	139,368	326,353	465,721
			<hr/>
Excess of Cash Receipts (Under) Cash Disbursements	(9,574)	(48,173)	(57,747)
			<hr/>
Fund Cash Balances, January 1	27,391	175,555	202,946
			<hr/>
Fund Cash Balances, December 31	<u>\$17,817</u>	<u>\$127,382</u>	<u>\$145,199</u>
			<hr/>
Reserves for Encumbrances, December 31	<u>\$882</u>	<u>\$1,022</u>	<u>\$1,904</u>

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

**SUGARCREEK TOWNSHIP
TUSCARAWAS COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND BALANCE - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Non-Expendable Trust
Fund Cash Balances, January 1, 2005	<u>\$2,445</u>
Fund Cash Balances, December 31, 2005	<u><u>\$2,445</u></u>

See accompanying notes to the basic financial statements.

**SUGARCREEK TOWNSHIP
TUSCARAWAS COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN FUND BALANCE - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Non-Expendable Trust
Fund Cash Balances, January 1, 2004	<u>\$2,445</u>
Fund Cash Balances, December 31, 2004	<u><u>\$2,445</u></u>

See accompanying notes to the basic financial statements.

**SUGARCREEK TOWNSHIP
TUSCARAWAS COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Sugarcreek Township, Tuscarawas County, Ohio, (the Township) as a body corporate and politic. A publicly-elected three-member Board governs the Township. The Township provides general governmental services, including road and cemetery services. The Township collects a 1.8 mill levy for the Sugarcreek Volunteer Fire Department and Swiss Valley Joint Ambulance District to provide fire and EMS protection to Township residents.

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

B. Basis of Accounting

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis 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 adequately disclose material matters the Auditor of State prescribes.

C. Cash

The Township maintains cash in an interest bearing checking account.

D. Fund Accounting

The Township uses fund accounting to segregate cash that is 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 that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

**SUGARCREEK TOWNSHIP
TUSCARAWAS COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Motor Vehicle License Tax Fund - This fund receives motor vehicle tax money for constructing, maintaining, and repairing Township roads.

Gasoline Tax Fund -This fund is used to account for tax money used for maintaining and repairing Township roads.

Road and Bridge Fund – This fund is used to account for tax money used for constructing, maintaining, and repairing Township roads.

Fire District Fund – This fund is used to account for tax money used to provide fire and ambulance service to the Township.

Cemetery Fund – This fund is used to account for operating and maintaining Township cemeteries.

3. Fiduciary Fund

Trust funds account for resources restricted by legally binding trust agreements. If the agreement requires the Township to maintain the corpus of the trust, the Township classifies the fund as a nonexpendable trust fund. The Township has a cemetery bequest fund.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

**SUGARCREEK TOWNSHIP
TUSCARAWAS COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

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

A summary of 2005 and 2004 budgetary activity appears in Note 4.

F. Property, Plant, and Equipment

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

2. EQUITY IN POOLED CASH

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

	2005	2004
Demand deposits	\$183,322	\$147,644

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$140,172	\$178,708	\$38,536
Special Revenue	325,250	351,924	26,674
Nonexpendable Trust	5	0	(5)
Total	\$465,427	\$530,632	\$65,205

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$156,136	\$141,141	\$14,995
Special Revenue	511,942	357,400	154,542
Nonexpendable Trust	1,351	0	1,351
Total	\$669,429	\$498,541	\$170,888

**SUGARCREEK TOWNSHIP
TUSCARAWAS COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$132,065	\$129,794	(\$2,271)
Special Revenue	236,700	278,180	41,480
Nonexpendable Trust	2,445	0	(2,445)
Total	\$371,210	\$407,974	\$36,764

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$158,537	\$140,250	\$18,287
Special Revenue	411,613	327,375	84,238
Nonexpendable Trust	2,445	0	2,445
Total	\$572,595	\$467,625	\$104,970

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board of Trustees adopts 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 State pays the Township amounts equaling these deductions. The Township includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment 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.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Township's behalf.

5. RETIREMENT SYSTEM

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.

**SUGARCREEK TOWNSHIP
TUSCARAWAS COUNTY**

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

5. RETIREMENT SYSTEM (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the years ended December 31, 2005 and December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. The Township's contribution rates for pension benefits for 2005 and 2004 were 9.55 percent and 13.55 percent, respectively. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Township's full amounts have been contributed for 2005 and 2004.

6. RISK MANAGEMENT

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Townships can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

**SUGARCREEK TOWNSHIP
TUSCARAWAS COUNTY**

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

6. RISK MANAGEMENT (Continued)

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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

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

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

Financial Position

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

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$30,485,638	\$28,132,620
Liabilities	<u>(12,344,576)</u>	<u>(11,086,379)</u>
Retained earnings	<u>\$18,141,062</u>	<u>\$17,046,241</u>
<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$9,177,796	\$7,588,343
Liabilities	<u>(1,406,031)</u>	<u>(543,176)</u>
Retained earnings	<u>\$7,771,765</u>	<u>\$7,045,167</u>

The Casualty Coverage assets and retained earnings above include approximately \$11.6 million and \$10.3 million of unpaid claims to be billed to approximately 950 member townships in the future, as of December 31, 2005 and 2004, respectively. OTARMA will collect these amounts in future annual premium billings when OTARMA's related liabilities are due for payment. The Township's share of these unpaid claims as of December 31, 2005 and December 31, 2004 is approximately \$10,364 and \$9,202, respectively.

**SUGARCREEK TOWNSHIP
TUSCARAWAS COUNTY**

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

7. MATERIAL NONCOMPLIANCE

Contrary to Ohio Rev. Code Section 5705.41(D), the Township did not properly certify certain expenditures.

Contrary to Ohio Rev. Code Section 5705.39, appropriations exceeded estimated resources in the Miscellaneous Special Revenue Fund.

8. RELATED PARTY TRANSACTION

Current Trustee Tyrone Hershberger (term began January 1, 2002) is employed by Kimble Clay & Limestone. During 2005 and 2004, Sugarcreek Township engaged in periodic business with Kimble Clay & Limestone in amounts totaling \$30,906 and \$17,189, respectively. Check payments to Kimble Clay & Limestone were signed by the Trustees, including Mr. Hershberger. Additionally, the minute records support Mr. Hershberger did not abstain from approving monthly bills, which included payments to Kimble Clay & Limestone.

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Auditor of State Betty Montgomery

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

Sugarcreek Township
Tuscarawas County
225 Rhine Street
Sugarcreek, Ohio 44681

To the Board of Trustees:

We have audited the financial statements of Sugarcreek Township, Tuscarawas County, Ohio, (the Township) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated September 1, 2006, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operations that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal controls over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as items 2005-001 through 2005-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses.

In a separate letter to the Township's management dated September 1, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2005-004 through 2005-007.

In a separate letter to the Township's management dated September 1, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

September 1, 2006

**SUGARCREEK TOWNSHIP
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

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

FINDING NUMBER 2005-001

Revenue Classification

During 2005 and 2004, several intergovernmental and license, permits, and fees receipts ranging in amounts of \$20 to \$66,875 were classified as miscellaneous receipts. As a result, miscellaneous receipts were initially overstated and intergovernmental and license, permits, and fees receipts understated.

The Fiscal Officer should ensure receipts have been assigned an appropriate receipt code based on the nature of the receipt. This will help ensure receipts are properly classified on the financial statements.

Officials' Response: The Township will review each type of receipt to ensure the proper receipt code is applied.

FINDING NUMBER 2005-002

Posting of Transfers

The Township Clerk transferred \$30,957 from the Miscellaneous Special Revenue Fund to the Road and Bridge Fund; however, the transfer was posted as a miscellaneous receipt rather than as a transfer in. As a result, transfers in/out did not initially reconcile.

The Township Clerk should reconcile transfers in to transfers out to help ensure the financial statements are accurately stated.

Officials' Response: The Township will periodically review transfers to ensure transfer in/out reconcile.

FINDING NUMBER 2005-003

Payroll Records

During testing of the Township payroll records, the following errors were noted:

- During 2005 and 2004, several footing and cross-footing errors were made ranging from \$9.49 to \$1,059 on the manual payroll sheets; therefore, the amount paid to certain employees did not always reconcile to the actual amount earned.
- During 2005, one employee's total gross wages were understated by \$1,059 and during 2004, another employee's total gross wages were understated by \$100. Therefore, the W-2 forms did not reconcile to total gross wages earned by the respective employee.
- During 2004, amounts for total gross wages, wages subject to Medicare wages and tips, and deferred compensation were listed correctly in box 1, 5, and 12a on the W-2 form. During 2005, one employee's W-2 form reflected the net amount of total gross wages less deferred compensation contributions.

FINDING NUMBER 2005-003 (Continued)

In order to improve the accuracy of payroll records, the Township Clerk should perform the following:

- The Township Clerk should re-perform footing and cross-footing procedures on the manually written payroll records. This will help ensure the accuracy of earnings and contributions reported.
- The Township Clerk should reconcile all manual payroll records to the payment register and W-2 forms. This will help ensure that employees are paid the correct amount of wages according to the manual pay sheets and the respective W-2 form reflects the same wages. Corrected W-2 forms should be re-submitted to the Internal Revenue Service.
- The Township Clerk should make sure the wages reported on the W-2 forms are consistent from year to year.

By implementing the above, a more accurate reflection of all of the Township's payroll activity will be presented.

Officials' Response: The Township will periodically review payroll records for errors and omissions.

FINDING NUMBER 2005-004

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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 sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

FINDING NUMBER 2005-004 (Continued)

2. **Blanket Certificate** – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During fiscal year 2005 and 2004, 41% and 50%, respectively, of expenditures tested were not certified as to the availability of funds by the Township Clerk prior to incurring the obligations. The Township Clerk should inform all Council Members of the requirements of Ohio Rev. Code Section 5705.41(D). The Township should implement the use of so called Then and Now Certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41. However, such certifications should only be used for recurring and reasonably predictable matters or emergency matters which arise from time to time.

Officials’ Response: The Township will consider implementation of Then and Now Certificates to help minimize the risk of not properly certifying certain expenditures.

FINDING NUMBER 2005-005

Ohio Rev. Code Section 5705.39 requires total appropriations from each fund not exceed total estimated fund resources from each fund. This section also requires the Township to obtain a County Auditor’s certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

During 2005, total appropriations exceeded total estimated resources at year end in the Miscellaneous Special Revenue Fund by \$61,914. The Board of Trustees should monitor appropriations versus estimated resources to help avoid overspending. In addition, the Township Clerk should obtain the required certificate from the County Auditor when amending appropriations and estimated resources.

Officials’ Response: The Township will amend appropriations for Federal Emergency Management Agency receipts in the future.

FINDING NUMBER 2005-006

Ohio Rev. Code Section 102.03(D) states that no public official shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person’s duties. **Ohio Rev. Code Section 2921.42(A)(1)** states no public official shall knowingly authorize or employ the authority or influence of his office to secure authorization of any public contract in which he, a member of his family, or any of his business associates has an interest.

FINDING NUMBER 2005-006 (Continued)

Current Trustee, Tyrone Hershberger (term began January 1, 2002) is employed by Kimble Clay & Limestone. During 2005 and 2004, the Township paid Kimble Clay & Limestone \$30,906 and \$17,189, respectively, for limestone. Check payments to Kimble Clay & Limestone during 2005 and 2004 were signed by the Board of Trustees, including Trustee Hershberger. Additionally, the 2005 and 2004 minute records support Tyrone Hershberger did not abstain from approving monthly bills, which included payments to Kimble Clay & Limestone. As a result, Tyrone Hershberger did not exercise the option of eliminating the use of his authority or influence of office to secure personal gain through his employer.

This issue will be referred to the Ohio Ethics Commission for whatever action is deemed necessary.

Officials' Response: The Township will ensure Trustee Hershberger abstains from approving payments to Kimble Clay & Limestone as well as discontinuing signing checks made payable to Kimble Clay & Limestone.

FINDING NUMBER 2005-007

Ohio Rev. Code Sections 145.47 and 145.48 state that the Fiscal Officer shall pay to the Ohio Public Employees Retirement System (OPERS) an amount of 13.55% of the earnable salary of all officials and employees. The provisions also require that the Township shall deduct from the pay an amount of 8.55% of the earnable salary of each official and employee on every payroll for each payroll period subsequent to the date of coverage. The Township Clerk shall transmit promptly to the system these amounts and a report of contributions at such intervals and in such form as the system shall require, showing thereon all deductions for the system made from the earnable salary of each official and employee employed, together with warrants or checks covering the total of such deductions.

During 2005, the Township remitted \$2,612.16 (Check Nos. 12629, 12683 and 12723) to OPERS for the 2nd quarter 2005 employer/employee share of gross wages; however, the recalculated amount totaled \$6,299.84 for a shortage of \$3,687.68. During 2004, the Township remitted \$6,408.45 (Check Nos. 12436, 12217, 12262, and 12367) to OPERS for the 3rd quarter 2004 employer/employee share of gross wages; however, the recalculated amount totaled \$6,641.77 for a shortage of \$233.32. These shortages are a result of incorrect gross wage amounts being utilized to calculate the required contribution percentages. The incorrect gross wage amounts can be attributed to various footing and crossfooting errors detected in the manual payroll records. The Township should make payments promptly to the OPERS for the proper amounts from the officials and employees earnable salaries. This will help ensure that payments are submitted on a reasonable basis at the correct amounts. This matter will be referred to OPERS for whatever action is deemed necessary.

Officials' Response: The Township will utilize the correct gross wages for the future. Also, the Township will ensure all remittances are performed timely.



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SUGARCREEK TOWNSHIP

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 9, 2006**