



**Auditor of State  
Betty Montgomery**



**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

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**Auditor of State  
Betty Montgomery**

Blue Rock Township  
Muskingum County  
7155 Buttermilk Road  
Blue Rock, Ohio 43720

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to 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 cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

September 26, 2006

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Blue Rock Township  
Muskingum County  
7155 Buttermilk Road  
Blue Rock, Ohio 43720

To the Board of Trustees:

We have audited the accompanying financial statements of Blue Rock Township, Muskingum 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 for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. 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 of Blue Rock Township, Muskingum County, 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 26, 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 26, 2006



**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

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

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Fiduciary Funds</u>	
<b>Cash Receipts:</b>				
Local Taxes	\$12,220	\$22,110	\$0	\$34,330
Intergovernmental	26,653	170,699		197,352
Other Revenue	4,957	15,003		19,960
	<u>43,830</u>	<u>207,812</u>	<u>0</u>	<u>251,642</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	28,078			28,078
Public Safety		900		900
Public Works	15,140	195,533		210,673
Health		4,376		4,376
	<u>43,218</u>	<u>200,809</u>	<u>0</u>	<u>244,027</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>612</u>	<u>7,003</u>	<u>0</u>	<u>7,615</u>
Fund Cash Balances, January 1	<u>7,352</u>	<u>16,576</u>	<u>669</u>	<u>24,597</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$7,964</u></b>	<b><u>\$23,579</u></b>	<b><u>\$669</u></b>	<b><u>\$32,212</u></b>

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

**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

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

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Fiduciary Funds</u>	
<b>Cash Receipts:</b>				
Local Taxes	\$11,591	\$28,141	\$0	\$39,732
Intergovernmental	23,689	75,196		98,885
<b>Total Cash Receipts</b>	<u>35,280</u>	<u>103,337</u>	<u>0</u>	<u>138,617</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	39,761			39,761
Public Safety		7,527		7,527
Public Works	648	93,432		94,080
Miscellaneous		490		490
<b>Total Cash Disbursements</b>	<u>40,409</u>	<u>101,449</u>	<u>0</u>	<u>141,858</u>
<b>Total Cash Receipts Over/(Under) Cash Disbursements</b>	<u>(5,129)</u>	<u>1,888</u>	<u>0</u>	<u>(3,241)</u>
Fund Cash Balances, January 1	<u>12,481</u>	<u>14,688</u>	<u>669</u>	<u>27,838</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$7,352</b></u>	<u><b>\$16,576</b></u>	<u><b>\$669</b></u>	<u><b>\$24,597</b></u>

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

**BLUE ROCK TOWNSHIP  
MUSKINGUM 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 Blue Rock Township, Muskingum County (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Duncan Falls Fire Department to provide fire services and emergency services.

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

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

**C. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

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

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

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

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

**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Fund Accounting (Continued)**

**2. Special Revenue Funds (Continued)**

FEMA Fund- This fund receives money from the Federal government to repair damages caused by natural disasters within the Township (i.e., flooding of roads).

Fire Fund- This fund receives money from a levy voted on by taxpayers within the Township in order to offer fire protection and emergency medical services.

**3. Fiduciary Fund (Trust Fund)**

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Township to maintain a corpus of the trust, the fund is classified as a non-expendable trust fund. The Township has established a Cemetery Bequest Fund as a non-expendable trust.

**D. Budgetary Process**

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

**1. Appropriations**

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

**2. Estimated Resources**

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

**3. Encumbrances**

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

A summary of 2005 and 2004 budgetary activity appears in Note 3.

**E. Property, Plant, and Equipment**

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

**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

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

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	2005	2004
Demand deposits	\$32,212	\$24,597

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$45,754	\$43,830	(\$1,924)
Special Revenue	170,926	207,812	36,886
Fiduciary	0	0	0
Total	\$216,680	\$251,642	\$34,962

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$39,598	\$43,218	(\$3,620)
Special Revenue	130,350	200,809	(70,459)
Fiduciary	0	0	0
Total	\$169,948	\$244,027	(\$74,079)

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$46,004	\$35,280	(\$10,724)
Special Revenue	122,319	103,337	(18,982)
Fiduciary	5	0	(5)
Total	\$168,328	\$138,617	(\$29,711)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$48,497	\$40,409	\$8,088
Special Revenue	146,995	101,449	45,546
Fiduciary	674	0	674
Total	\$196,166	\$141,858	\$54,308

**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

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

**3. BUDGETARY ACTIVITY (Continued)**

Contrary to Ohio law, the Township did not: 1) obtain the fiscal officer's certification prior to incurring Township obligations; 2) limit expenditures to the amount of appropriations adopted by the Board; 3) obtain reduced amended certificates of estimated resources when it was known that actual receipts would fall short of estimates; 4) adopt a resolution authorizing the amounts of salaries and fringe benefits to be paid from other than the general fund; and 5) obtain cash advances when needed.

**4. PROPERTY TAX**

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

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

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

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

**5. RETIREMENT SYSTEMS**

All employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 8.5 percent of their gross salaries. The Township contributed an amount equaling 13.55 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2005.

**6. RISK MANAGEMENT**

**Risk Pool Membership**

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

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

**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

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

**6. RISK MANAGEMENT (Continued)**

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member 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.

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.

**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

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

**6. RISK MANAGEMENT (Continued)**

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004:

<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 is approximately \$3,400.

**7. CONTINGENT LIABILITIES**

Amounts grantor agencies pay to the Township are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**8. RELATED PARTY TRANSACTIONS**

A company owned by a relative of a Township Trustee performed work on Township roads throughout the period. The Township compensated this company \$18,315 during fiscal year 2004 and \$48,514 during fiscal year 2005.





**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***

Blue Rock Township  
Muskingum County  
7155 Buttermilk Road  
Blue Rock, Ohio 43720

To the Board of Trustees:

We have audited the financial statements of Blue Rock Township, Muskingum County, Ohio (the Township), as of and for the years ended December 31, 2005 and 2004 and have issued our report thereon dated September 26, 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 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 in order 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 the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control 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. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-001 and 2005-006.

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. We consider reportable condition 2005-001 listed above to be a material weakness. In a separate letter to the Township's management dated September 26, 2006, we reported other matters involving internal control over financial reporting which 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 or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2005-001 through 2005-005. In a separate letter to the Township's management dated September 26, 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 26, 2006

**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-001**

**Noncompliance Citation and Material Weakness**

Ohio Rev. Code § 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. The main exceptions are: “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **“Then and Now” Certificates** – 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 Board can authorize the drawing of a warrant for the payment of the amount due. The Board 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 Board.

2. **Blanket Certificate** – Fiscal officers may prepare “blanket” certificates not exceeding \$5,000 against any specific line item account not extending beyond the end of the 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. Effective September 26, 2003, certificates may not exceed an amount established by resolution or ordinance of the Board, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the Board for the blanket.
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.

The Township did not properly certify the availability of funds prior to purchase commitment for 93% and 100% of the expenditures tested for 2004 and 2005, respectively, and there was no evidence that the Township followed the aforementioned exceptions. Without these certifications, the management of the Township lost budgetary control over expenditures and, as more fully explained in finding 2005-002, this condition allowed noncompliance with Ohio Revised Code § 5705.41(B) to occur.

**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

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

**FINDING NUMBER 2005-001 (Continued)**

**Noncompliance Citation and Material Weakness - Ohio Rev. Code § 5705.41(D)(1) (Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to an obligation being incurred by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Township certify purchases to which § 5705.41(D) applies. The most convenient certification method is to use purchase orders that include certification language § 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of § 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Officials' Response**

We did not receive a response from Township Officials concerning this finding.

**FINDING NUMBER 2005-002**

**Noncompliance Citation**

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

During fiscal year 2005, the following funds had expenditures which exceeded appropriations:

<b>Fund</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General Fund	\$39,598	\$43,218	(\$3,620)
Gasoline Tax Fund	\$74,189	\$86,772	(\$12,583)
Road and Bridge Fund	\$29,902	\$35,996	(\$6,094)
FEMA Fund	\$0	\$63,283	(\$63,283)

In addition, we noted expenditures in excess of appropriations during fiscal year 2004, at the legal level of control, for the following:

**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-002 (Continued)**

**Noncompliance Citation - Ohio Rev. Code § 5705.41(B) (Continued)**

<u>Fund</u>	<u>Account</u>	<u>Month</u>	<u>Variance</u>
General Fund	Unemployment Compensation	July	(\$55)
General Fund	Other Expenses	December	(\$379)
Motor Vehicle License Tax Fund	Maintenance Materials	February	(\$165)
Road and Bridge Fund	Maintenance Salaries	March	(\$4,508)
Cemetery Fund	Supplies	December	(\$287)

The Township's failure to limit expenditures to the amounts appropriated could result in deficit spending.

We recommend the Board of Trustees and the Township Fiscal Officer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then the Board should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations. Once the Board of Trustees has adopted additional appropriations, the County Budget Commission (County Auditor) should certify that appropriations do not exceed estimated resources. The Township Fiscal Officer should not make any expenditure unless appropriations are available.

**Officials' Response**

We did not receive a response from Township Officials concerning this finding.

**FINDING NUMBER 2005-003**

**Noncompliance Citation**

Ohio Rev. Code § 5705.36(A)(2) allows subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Rev. Code § 5705.36(A)(3) requires an increased amended certificate be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Rev. Code § 5705.36(A)(4) requires that a reduced amended certificate be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

For the fiscal year ended December 31, 2004, appropriations exceeded the beginning balance plus actual receipts of various funds as follows:

<u>Fund</u>	<u>Amount</u>
General Fund	(\$8,043)
Motor Vehicle License Tax Fund	(\$4,434)
Gasoline Tax Fund	(\$12,585)
Road and Bridge Fund	(\$6,636)

**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-003 (Continued)**

**Noncompliance Citation - Ohio Rev. Code § 5705.36(A)(2) (Continued)**

For the fiscal year ended December 31, 2005, appropriations exceeded the beginning balance plus actual receipts of the Motor Vehicle License Tax Fund by \$6,767.

Failure to obtain reduced amended certificates of estimated resources and to make corresponding reductions in appropriations could result in deficit spending.

We recommend the Township fiscal officer and Board of Township Trustees review budgeted and actual receipts each month to determine whether amended certificates of estimated resources are needed. When it is known that actual receipts will fall short of estimates, the Township should obtain a reduced amended certificate for the deficiency and reduce appropriations accordingly.

**FINDING NUMBER 2005-004**

**Noncompliance Citation**

Ohio Rev. Code § 505.24(C) sets forth the method by which township trustees' compensation should be allocated. This section is amplified by Ohio Attorney General (OAG) Opinion 2004-036.

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

- (1) Trustees receiving per diem compensation:** The trustees must resolve a method by which each trustee shall periodically notify the township clerk of the number of days spent on township services *and the kinds of services rendered* on those days. The per diem compensation shall be paid from the township general fund or from other township funds in proportion to the kinds of services rendered, as documented. (For example, the township could charge trustee time spent on road repairs to the road & bridge fund.)
- (2) Trustees receiving compensation by annual salary:** By resolution, Rev. Code Section 505.24(C) permits trustees to receive annual salaries instead of per diem payments. When paid by salary, Rev. Code Section 505.24(C) does not prescribe a "documentation of time spent" requirement.

However, for salaries **not** paid from the general fund, effective October 19, 2004, OAG Opinion 2004-036 requires trustees to establish administrative procedures to document the proportionate amount chargeable to other township funds based on the kinds of services rendered. The "administrative procedures" can be timesheets or a similar method of record keeping, as long as the trustees document all time spent on township business and the type of service performed, in a manner similar to trustees paid per diem compensation. If trustees do not document their time, then no part of salaries may be paid from these other funds.

Per the above, trustees must keep records of the time spent on various tasks and the fund to which the township will charge their costs. (The sole exception to this is for trustees charging all salaries to the general fund, as described above.) There is no one method for documenting time and the kinds of services rendered. A diary, time sheets or other methods will suffice if they include the information described above.

**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-004 (Continued)**

**Noncompliance Citation - Ohio Rev. Code § 505.24(C) (Continued)**

Prior to the issuance of the aforementioned OAG Opinion, regarding **(2)** above, the Auditor of State (AOS) accepted resolutions that specified percentages of salaries to allocate to various funds, as complying with Rev. Code § 505.24(C). This OAG Opinion alters that conclusion. Resolutions to pay trustees by salary should now specify that a township will allocate salaries based on **documentation** the trustees submit, not based on percentages a **resolution specifies**.

The Township had not adopted a resolution in either year authorizing the amounts of salaries and fringe benefits to be paid from each fund, nor had the Township established procedures documenting services rendered and the funds to which to charge these costs. However, the Trustees' combined annual salaries and fringe benefits were paid in the following proportions during fiscal year 2004: 63% General and 37% Gasoline Tax Fund. Also the Trustees' combined annual salaries and fringe benefits were paid in the following proportions during fiscal year 2005: 39% General Fund and 61% Gasoline Tax Fund.

After bringing this to the Township management's attention, the Board of Trustees passed a retroactive resolution on September 7, 2006 addressing the proportions from which the total compensation (salaries and fringe benefits) of Trustees should have been paid. The proportions approved were consistent with those percentages indicated above.

Failure to maintain documentation of time spent by the Trustee's on each duty and the funds to which the time is to be charged could result in significant adjustments being made to the Township's fund balances.

We recommend the Township adopt formal administrative procedures regarding documenting the time spent by Trustees on various duties and the funds to which each task should be charged. The Township should adopt a resolution specifying that the Township will allocate salaries based upon documentation submitted by each trustee or all salaries will be paid from the General Fund. In addition, the Township should document the duties the Trustees have already performed during the current year (2006) and make adjustments to the amounts charged to each fund in accordance with this documentation.

**Officials' Response**

We did not receive a response from Township Officials concerning this finding.

**FINDING NUMBER 2005-005**

**Noncompliance Citation**

Ohio Rev. Code § 5705.10(H) provides that money paid into a fund must be used for the purposes for which said fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expense of another fund.

At December 31, 2005 and 2004, the Motor Vehicle License Tax Fund had negative fund balances of \$4,466 and \$3,617, respectively.

**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-005 (Continued)**

**Noncompliance Citation - Ohio Rev. Code § 5705.10(H) (Continued)**

We recommend the Township only use money for the purposes for which the fund has been established. The fiscal officer should deny payment requests if adequate cash fund balances are not available. The fiscal officer may request the Board to approve cash advances, but only when adequate moneys are available in a fund(s) where a cash advance is otherwise legal. Auditor of State Audit Bulletin 1997-003 provides information on the authority for making cash advances and guidance on making advances, once it has been determined that authority exists for the cash advance.

**Officials' Response**

We did not receive a response from Township Officials concerning this finding.

**FINDING NUMBER 2005-006**

**Reportable Condition**

When designing the public office's system of internal control and the specific control activities, management should consider the following:

- Ensuring that all transactions are properly authorized in accordance with management's policies.
- Ensuring that accounting records are properly designed.
- Ensuring adequate security of assets and records.
- Planning for adequate segregation of duties or compensating controls.
- Verifying the existence and valuation of assets and liabilities and periodically reconciling them to the accounting records.
- Performing analytical procedures to determine the reasonableness of financial data.
- Ensuring the collection and compilation of the data needed for the timely preparation of financial statements.

The small size of the Township's staff did not allow for an adequate segregation of duties as the Fiscal Officer performed all accounting functions. It is therefore important the Board of Trustees function as a finance and audit committee to monitor financial activity closely and to follow up on any audit findings. While the Trustees approved all vouchers for payment and signed all checks which were issued, there was no documentation of the extent to which Trustees reviewed financial information to monitor the financial activity of the Township.

Without formally reviewing financial reports and records, the Board may not be fully aware of the financial status of the Township, condition of financial records, or the untimely performance of budgetary requirements. Had proper monitoring controls been established, many of the conditions reported could have been prevented or detected in a timely manner.



**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-006 (Continued)**

**Reportable Condition (Continued)**

In addition, this resulted in an unauthorized adjustment being posted to the Township's records which remained undetected by the Township Trustees. During fiscal year 2004, the Fiscal Officer voided an audit adjustment which had been previously required as part of the audit of the fiscal year 2002 and 2003 financial statements and therefore the Township's General Fund was understated by \$7,308 and Motor Vehicle License Tax Fund was overstated by \$7,308 throughout the period. As a result an audit adjustment to the Township's beginning 2004 cash balances was necessary as follows:

<u>Fund</u>	<u>Increase</u>	<u>Decrease</u>
General	\$7,308	
Motor Vehicle License Tax		\$7,308

This adjustment, with which Township management agrees, has been posted to the Township's records and is reflected in the accompanying financial statements.

We recommend the Fiscal Officer prepare monthly financial reports which include budget vs. actual information for receipts and disbursements, as well as reconciliations and fund balances. The Board should formally review and approve these monthly reports, and note the Board's approval in the Board's minutes. Monthly financial reports should be signed by the Board members to indicate each member's review and approval. In addition, we recommend the Board periodically review the Township's books to ensure they are posted up to date and are in balance. Furthermore, the Board should verify that all budgetary measures requiring adoption by the Board are indeed adopted by the Board in a timely manner and subsequently posted to the Township's ledgers.

**Officials' Response**

We did not receive a response from Township Officials concerning this finding.

**BLUE ROCK TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2003-001	Ohio Rev. Code § 5705.41(D)(1) – The fiscal officer failed to certify the availability of funds prior to commitment.	No	Repeated as finding number 2005-001.
2003-002	Ohio Rev. Code § 5705.10 – Significant revenues were posted to incorrect Township funds.	Yes	Not applicable.
2003-003	Ohio Rev. Code § 5705.10 – The Motor Vehicle License Tax Fund and the Gasoline Tax Fund had negative cash balances.	No	Repeated as finding number 2005-005.
2003-004	Ohio Rev. Code § 5705.36 – The Township failed to properly amend estimated resources.	No	Repeated as finding number 2005-003.
2003-005	Ohio Rev. Code § 5705.41(B) - Expenditures were made in excess of appropriations.	No	Repeated as finding number 2005-002.
2003-006	Ohio Rev. Code § 5705.39 – Appropriations exceeded total estimated resources in several funds.	No	Comment has been repeated in a separate letter to management.



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**BLUE CREEK TOWNSHIP**

**MUSKINGUM COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 30, 2006**